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# IN BRIEF

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## Outsourcing: Is It to Blame for Lost Jobs?

On 10 February 2006, Statistics Canada reported a loss of some 42,000 jobs in Canada's manufacturing sector during the month of January alone, bringing the total number of jobs lost in this sector since November 2002 to 200,000. This phenomenon is driving business leaders to talk about the deindustrialization of Canada. Some maintain that this decline is due to the triple pressure of the exchange rate, energy costs and competition from cheap Asian labour. The situation has prompted several companies to turn to outsourcing, which provides access to leading-edge expertise and technology, while lowering costs and boosting productivity and competitiveness. However, according to some, outsourcing is also the cause of job losses, especially in the manufacturing sector.

### OUTSOURCING INDICATOR

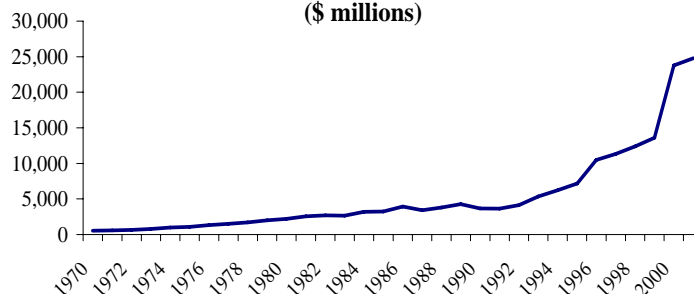
At present, there is no quantitative database offering an exhaustive overview of outsourcing in Canada.<sup>(1)</sup> Such information tends to be confidential, given its strategic importance to companies. This lack of data has led to the use of a relatively new quantification method to report outsourcing activities; that is, of input-output matrices<sup>(2)</sup> for the Canadian economy.

### TOWARD JOB DISPLACEMENT?

Between 1990 and 2001, the total value of goods and services used (*inputs*, in dollars) by the manufacturing sector for production purposes increased by approximately 88%. A breakdown of the input matrix into its individual goods and services components reveals a significant increase in the use of one production input in the manufacturing industry; that is, business and computer services (BCS). Almost

non-existent during the 1970 to 1990 period, BCS as production inputs increased more than fivefold between 1990 and 2001 (Figure 1) – a significant organizational change in this sector. Since BCS are often outsourced, the change may have entailed job losses within the sector itself, all else being equal.

**Figure 1: Use of Business and Computer Services by the Manufacturing Industry, 1990-2001**  
(\$ millions)

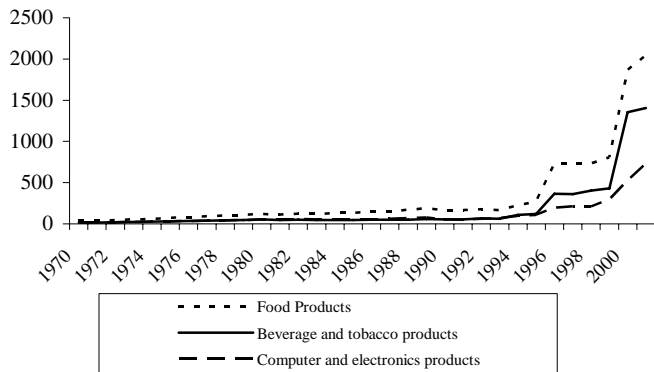


Source: Statistics Canada.

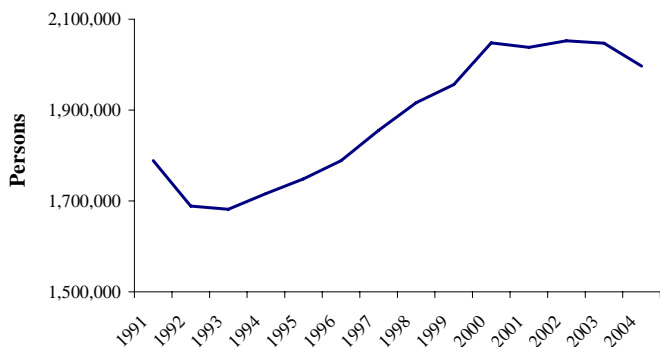
While the use of BCS has increased fivefold in the manufacturing sector, selected subsectors experienced even greater growth (Figure 2). The trend in two of these subsectors is particularly noteworthy:

- The use of BCS increased by a factor of 24 in the beverage and tobacco products subsector and by a factor of 12 in the computer and electronics products subsector. This growth was most significant in the second half of the 1990s.
- These two subsectors saw their labour force increase by 4% between 1990 and 2004 (Figures 3 and 4) – a rate significantly below that of the overall industry.<sup>(3)</sup> In both cases, there is a strong correlation between significant use of outsourcing and slow labour force growth in these subsectors.

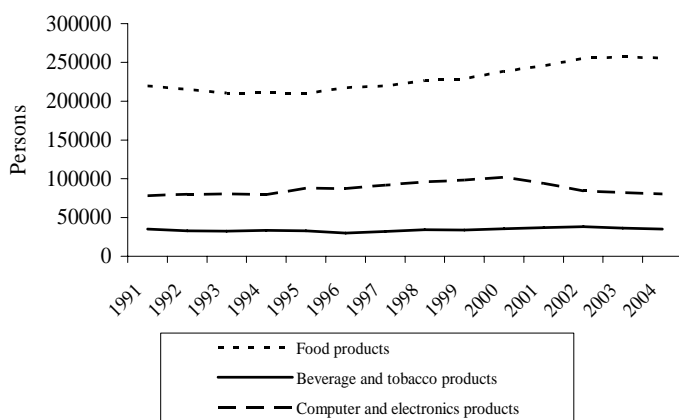
**Figure 2: Use of Computer and Business Services in Selected Subsectors of the Manufacturing Industry (\$ millions)**



**Figure 3: Number of Jobs in the Manufacturing Industry**



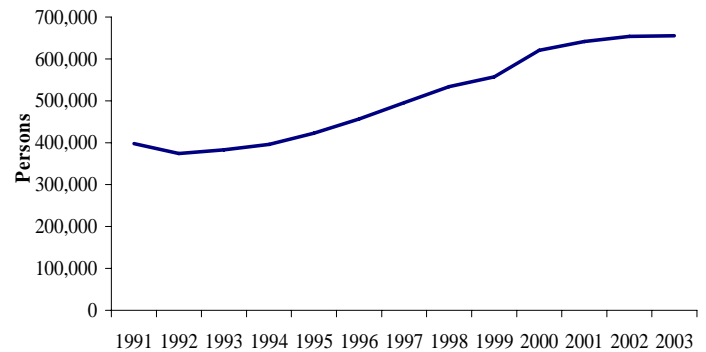
**Figure 4: Number of Jobs in Selected Subsectors of the Manufacturing Industry**



Source: Statistics Canada.

The number of jobs in the professional, scientific and technical services sector increased significantly (by approximately 65%) during the same period (Figure 5).<sup>(4)</sup> In comparison, the number of jobs for all service industries combined increased by approximately 30% between 1991 and 2003.

**Figure 5: Number of Jobs in the Professional, Scientific and Technical Services Sector**



Source: Statistics Canada.

## CONCLUSION

The data and analyses used seem to indicate that, despite the vitality of the manufacturing sector, which has been able to maintain a productivity growth comparable to the national average even in the face of significant economic challenges,<sup>(5)</sup> the outsourcing of computer and business services could, in part, explain the loss of jobs in that sector and the growth of the labour force in the professional, scientific and technical services sector.

- (1) M. Van Audenrode, P. Lefebvre and J. Royer (cited in Alain Halley, *Étude portant sur les activités de sous-traitance chez les entreprises canadiennes : une comparaison des quatre grandes régions du pays*, Groupe de recherche CHAINE, Cahier de recherche 00-10, Hautes Études Commerciales, Montréal, 25 August 2000) came to the same conclusion with regard to Quebec.
- (2) Statistics Canada's input-output (I-O) model uses I-O tables for Canada to track and quantify economic activity based on changes in consumption or production. I-O matrices make it possible to determine an industry's consumption (in dollars) of goods and services that it purchases from another industry and uses in its own production processes.
- (3) For comparison purposes, the number of jobs in the manufacturing sector increased by approximately 14% between 1991 and 2003. The number of jobs in all industries combined increased by approximately 20% during the same period.
- (4) CGI, for example, has become a world leader in the field of information technology services and currently employs some 25,000 professionals.
- (5) See Statistics Canada, *The Daily*, 20 December 2004, <http://www.statcan.ca/Daily/English/041220/td041220.htm>.