

G20

Country Briefs



International
 Labour
 Office

CANADA'S RESPONSE TO THE CRISIS

Labour market volatility

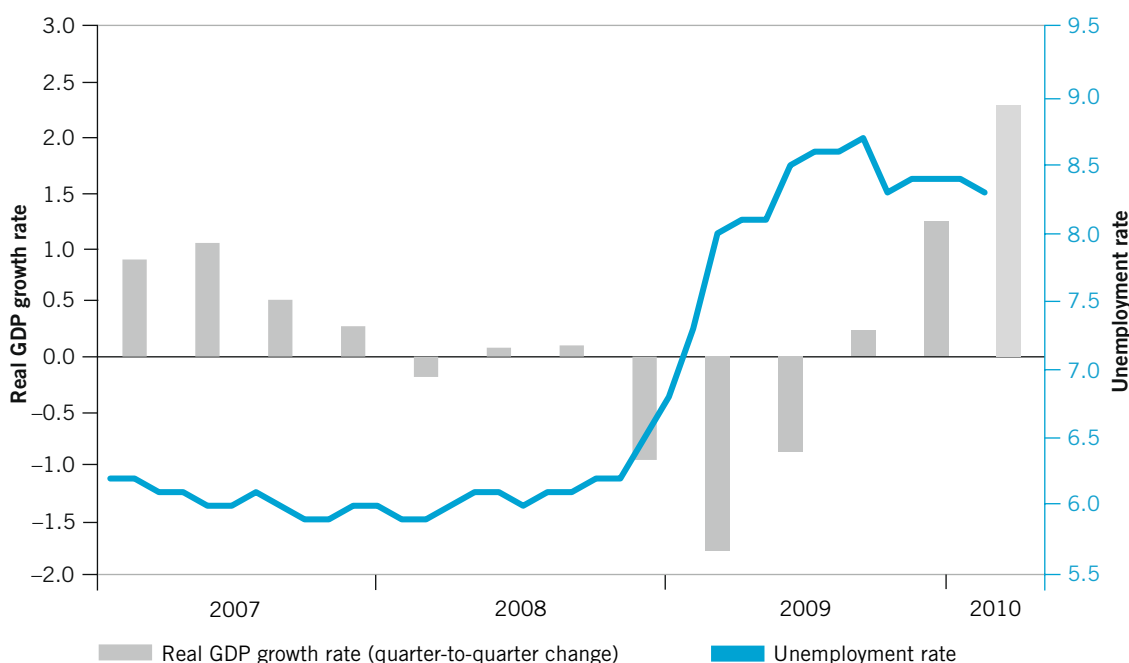
After a period of steady growth in gross domestic product (GDP), Canada's annual growth rate slowed markedly to 0.4 per cent in 2008, which included two quarters in which GDP contracted. Growth did not return until the third quarter of 2009 and picked up to 1.2 per cent in the fourth quarter (figure 1). Nonetheless, GDP contracted by 2.6 per cent in 2009 compared with a year earlier.

During 2009 the Canadian labour market experienced considerable volatility in job gains and losses. For example, in August, September and November of 2009, the Canadian economy added 27,000, 31,000

and 79,000 jobs respectively. However, losses in both October and December 2009 (when Canada lost 43,000 and 2,600 jobs respectively) have erased some of these earlier gains. Job gains returned in January 2010, when the Canadian economy added another 43,000 jobs, mostly in part-time work. But despite the recent increases, employment still remains 280,000 below the level of October 2008.

Economic weakness and volatility in job growth have left the unemployment rate near its recent high. In January 2010, the unemployment rate stood at 8.3 per cent, down 0.2 percentage points from December 2009 and slightly below its recent peak of 8.6 per cent in October 2009.

Figure 1. Monthly unemployment rate and Quarterly real GDP growth rate, 2007–2009 and 2010 forecasts
 (percentage)



Source: Statistics Canada. Seasonally adjusted data.

Stimulus programme

Composition: In March 2009, Canada announced its *Economic Action Plan* which, in terms of federal stimulus, totals C\$47.3 billion (figure 2). The stimulus programme is comprised of spending in the following three areas:

- Public spending on goods and services, which includes stimulating housing construction by building homes, encouraging home ownership and enhancing energy efficiency and infrastructure spending (modernizing and greening of federal buildings);
- Stimulus aimed at consumers, which includes income tax cuts aimed at boosting consumer spending and improved access to finance for consumers and households;
- Stimulus aimed at businesses, which includes protecting jobs and supporting sectoral adjustment (help to automotive, forestry and manufacturing) and improved access to financing for businesses.

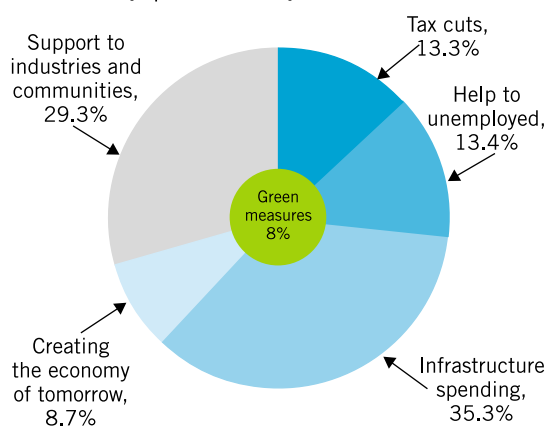
Green investment comprises 8 per cent of the stimulus spending, and it falls in many different areas of spending.

Labour market initiatives

Over 13 per cent of Canada's federal stimulus is directly aimed at labour market initiatives, while other components of stimulus spending also are likely to have employment content (especially infrastructure spending and green investments). The main labour market initiatives include:

- Expanded benefits for unemployed workers – an extra five weeks, work-sharing, and wage earner protection;
- Additional funding for enhanced training for unemployed Canadians;

Figure 2. Canada's Economic Action Plan (C\$47.3 billion)



Note: Figures include federal stimulus measures only; provincial measures are not included.
Source: ILO based on *Canada's Economic Action Plan* and UNEP.

- Greater support for long-tenured workers and older workers in vulnerable communities;
- Measures to provide more opportunities for youth employment;
- Five aboriginal training and employment projects.

Protecting earnings

The Wage Earner Protection Programme (WEPP) is a targeted federal programme that came into effect on 7 July 2008. Employees who have lost their employment as a result of the bankruptcy or receivership of their employer are provided with financial assistance through the WEPP. Prior to the WEPP, an estimated 10,000 to 20,000 workers annually had unpaid wage claims when their employers went bankrupt. Recent amendments to insolvency legislation in Canada, including the creation of the WEPP, have attempted to ensure that these vulnerable workers recover some or all of the wages they are owed.

As part of *Canada's Economic Action Plan*, the WEPP was expanded in January 2009 to include coverage of termination and severance pay, up to the WEPP maximum of four weeks insurable earnings under the Employment Insurance Act (C\$3,323 as of 1 January 2010). This expansion was intended to provide additional financial assistance and improved economic security to Canadian workers during the economic downturn. It has enabled a greater number of Canadian workers to qualify for WEPP financial support and allow for higher average monetary claims, up to the existing cap (figure 3).

Impact

Since the programme's expansion, demand for WEPP economic support has increased significantly. In the 2009 fiscal year (1 April 2009 to 7 February 2010), a total of 13,500 workers (or an average of 300 per week) received WEPP economic support compared to just over 2,700 between 7 July 2008 and 31 March 2009.

From 1 April 2009 to 7 February 2010, a total amount of C\$29.9 million was paid out; the amount paid out in termination and severance pay alone is C\$18.2 million. It is estimated that there will be about 17,400 applicants this fiscal year and approximately C\$37.6 million paid in support.

Work-sharing

Canada's Work-Sharing Programme helps companies and workers continue to work together productively through difficult times. Employers and employees work with Service Canada and agree to reduce company operations and the amount of work required of each employee, and then Employment Insurance (EI) income is provided to compensate for the reduced work week. Like WEPP, Work-Sharing was an existing programme that was enhanced in an attempt to limit

Table 1. Work-sharing as of 15 November 2009

Region	Agreements	Participating employees
Atlantic Canada	78	2,400
Quebec	1,100	38,000
Ontario	2,900	90,000
Prairies	700	20,000
B.C.	1,000	17,000
Yukon	2	10
Total	5,780	167,410

Source: Canada's Economic Action Plan.

job losses. In particular, the programme's duration was extended by 14 weeks. Work-sharing agreements can now last up to a full year.

In addition, access to the work-sharing programme was facilitated. This included: relaxing the qualifying criteria; streamlining the employer-related application process; eliminating wait times; allowing employers who participated in a work-sharing agreement that ended 1 February 2009 to apply for a new, extended agreement; and reducing the paper burden for employers.

Impact

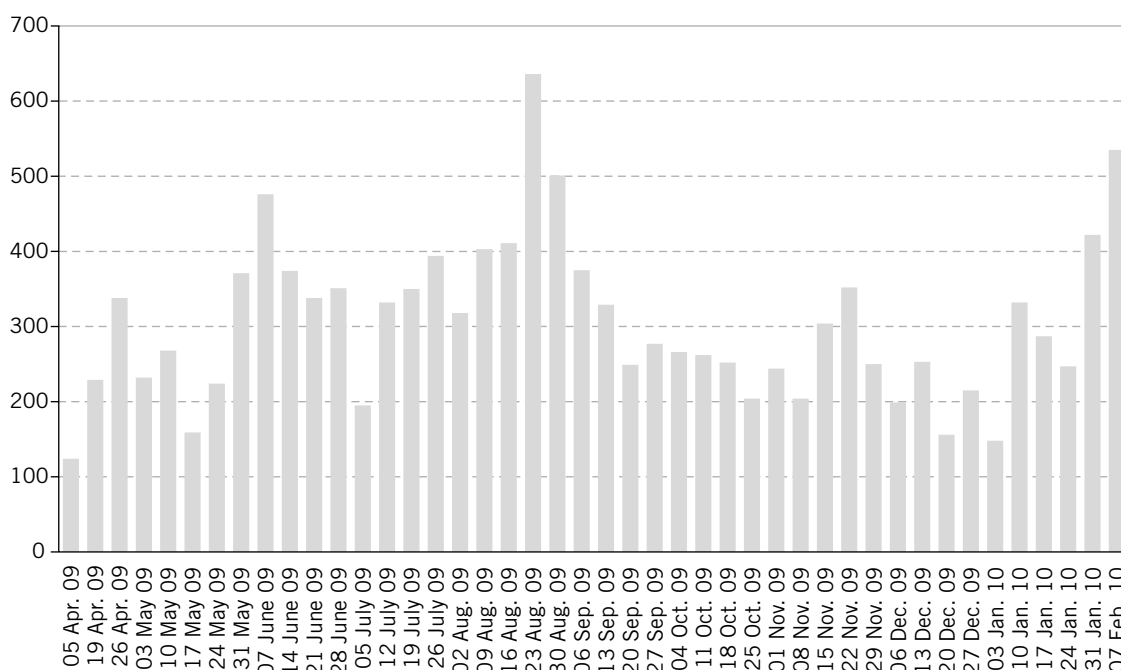
As of 15 November 2009, there had been close to 6,000 work-sharing agreements and the number of participating employees was 167,410 (table 1). For employers, work-sharing makes it possible to protect against additional job destruction in the short run with the expectation that the economy will resume

growth in the near future. It makes it possible to retain employees on a reduced work/cost basis and thus eliminate the need for expensive rehiring and retraining when the economy and the firm recover. For employees, work-sharing allows for continuous employment, avoids skills erosion and maintains individual income flows (and in turn supports aggregate demand).

Outlook and challenges

Despite positive GDP growth in the third quarter of 2009, the Canadian economy continued shedding jobs through December 2009. And though January 2010 witnessed strong gains, the vast majority (95 per cent) of jobs created were part-time jobs. In addition, while GDP is expected to grow at 2.1 per cent in 2010, unemployment is forecast to remain stable at about 8.5 per cent.¹ Recognizing that Canada's recovery from the recession is in its early stages, there are still some concerns that the number of individuals who become detached from the labour market could continue to rise. Between December 2008 and December 2009, the labour force participation rate declined by 0.5 percentage points. The biggest decline took place among youth aged 15 to 24, where participation rates fell by 2.1 percentage points in 2009. There are potential benefits in such a trend when it reflects increased educational enrolment. Nonetheless, youth unemployment in January 2010 stood at 15.1 per cent, up by 2 percentage points from January 2009.²

If more is not done to ensure individuals have opportunities in the job market, a longer-than-usual period out

Figure 3. WEPP recipients (weekly, April 2009 – February 2010)

Source: Canada Economic Stimulus Plan.



of the labour force could compromise future employment prospects and risk a mismatch between labour demand and supply once economic activity picks up. This could dampen recovery and growth prospects – as was the case in Canada during the most recent period of economic expansion.

Canada is also likely to face a number of fiscal challenges. Gross debt as a percentage of GDP is projected to increase from 62.7 in 2008 to 79.3 in 2010.³ This raises the issue of balancing a certain level of fiscal

prudence with the need to avoid premature spending cuts, especially in the areas of job creation and social transfers so as to prevent a structural reduction in labour supply that could dampen recovery prospects.

¹ IMF: *World Economic Outlook*, October 2009,

² Youth employment increased by 29,000 in January 2010, hence the unemployment rate went down from 16 per cent in December 2009 to 15.1 per cent in January 2010.

³ IMF: *The State of Public Finances Cross-Country Fiscal Monitor*: November 2009.