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THE CANADIAN UNEMPLOYMENT RATE – WITH AND WITHOUT ALBERTA'S BOOM

Ron Kneebone

Over the past two decades there has occurred a shift in economic power from central Canada to other parts of the country. Saskatchewan and Newfoundland and Labrador have both claimed a noticeably larger share of Canada's GDP since 1995 but easily the largest shift of economic output has been to Alberta. This adjustment in the Canadian economy is most easily observed in the large migration between provinces of Canadians seeking employment. Data from Statistics Canada's Labour Force Survey shows that over the period 1995-2014 Alberta has maintained an average annual rate of growth in employment of 2.50 per cent. This is well above the 1.44 percentage rate of employment growth in second-place Ontario and double the average rate of growth in neighbouring British Columbia. This begs the question: What would Canada's unemployment rate be today if Alberta's job creation boom hadn't happened? Since the national jobless rate is a weighted average of the provincial figures, getting an answer is straightforward. Assume Alberta's employment growth was no higher than Ontario's over the same period and the impact on Canada's unemployment rate is startling. By August 2014, Canada's unemployment would have been 9.39 per cent – 2.23 percentage points higher than the real figure of 7.16 per cent – and the Alberta economy would have created 411,000 fewer jobs; jobs which typically pay \$200 to \$300 per week more than jobs in Ontario and Quebec. This gloomy scenario means that Canada's present unemployment rate would be 2.5 percentage points higher than it was in mid-2000, and 411,000 Canadians, along with their dependents, would be clearly much worse off were it not for the boom in Alberta. Obviously this simple experiment can't capture the situation's full economic complexity. Would some of those jobs have cropped up in other provinces? Stubbornly lacklustre growth could very well have forced governments and the Bank of Canada to adopt desperate measures; it could also have damaged post-recession recovery by increasing the federal budget deficit and limiting the Bank's room to manoeuvre. While admittedly simple, this exercise highlights how reliant is Canada's international reputation for economic strength and fiscal parsimony on Alberta's prolonged economic boom.

In June 2014, a report from the Bank of Montreal summarized the recent performance of the Canadian labour market by suggesting that “there’s Alberta, then there’s everyone else.”¹ The gist of the report is that over the previous year Alberta’s labour market has created jobs at a prodigious rate and were it not for that performance, the economic picture in Canada might not look so rosy.

In this short commentary two points are highlighted. First, there is nothing new in what the BMO has reported; in fact the situation described in the BMO report is something that has been true since about 2000. Second, the booming Alberta economy has had an important impact on the rest of Canada and for how we evaluate the performance of the Canadian economy.

Statistics Canada provides detailed data on provincial labour markets; data describing the state of each provincial labour market on a month-by-month basis. The data are from the Labour Force Survey and are published by Statistics Canada in its CANSIM database (Table 2820087). The data report total employment of both sexes aged 15 to 64 years and are seasonally adjusted. Data from this source is what Statistics Canada uses to calculate unemployment rates.

One thing these data can be used to calculate is the average annual rate of growth in employment in each province. The following table reports on these values using data spanning the period January 1995 to August 2014.

AVERAGE ANNUAL GROWTH RATE IN EMPLOYMENT, 1995-2014

NFL	PEI	NS	NB	QU	ON	MN	SK	AB	BC
0.47%	1.31%	0.70%	0.60%	1.15%	1.44%	0.98%	0.99%	2.50%	1.23%

The average annual growth rate in Alberta, at 2.50 per cent per year, stands out. It is considerably higher than the runner-up, Ontario, and twice the average annual rate of growth in British Columbia. For the past 20 years, therefore, Alberta’s labour market has been the engine that has pulled along the Canadian economic train.

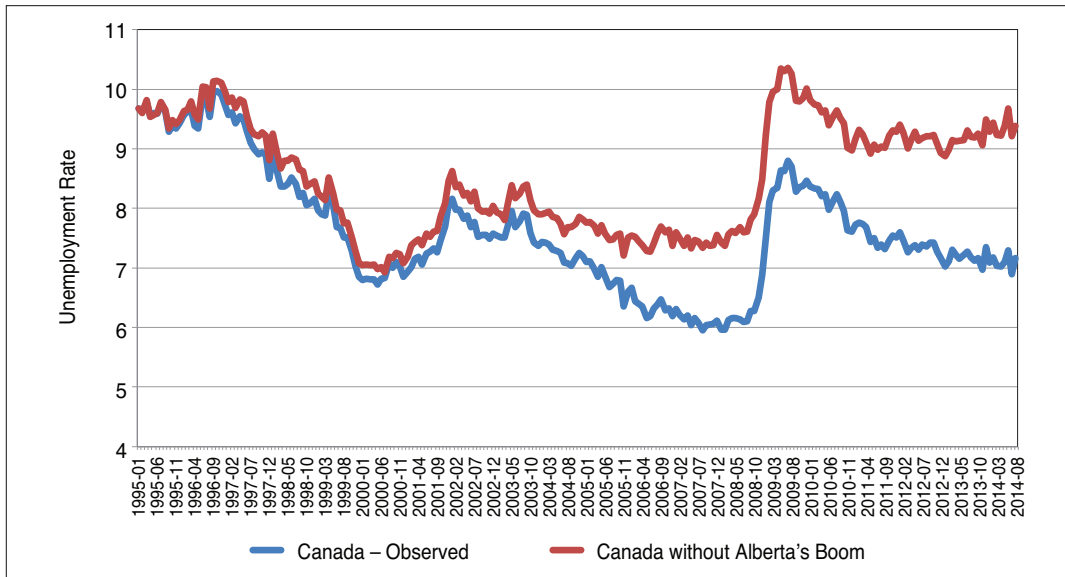
The fact that the Canadian unemployment rate is a weighted average of the unemployment rates of the provinces means we can run a simple experiment that goes a long way to answering the following question: What would the Canadian unemployment rate be today had it not been for the boom in job creation in Alberta?

A simple way of doing this is to use the data provided by Statistics Canada to calculate how employment in Alberta would have changed had the labour market in that province performed differently. It is then a simple matter to calculate what the national unemployment rate would have been under that scenario.

There are lots of variations on this experiment that one could entertain. The one to be focused on here is the implication for the national unemployment rate had Alberta’s economy created jobs at the same annual rate as Ontario. That is, suppose, starting in January 1995, employment in Alberta grew at an average annual rate of 1.44 per cent instead of 2.50 per cent. What would this mean for the national unemployment rate?

¹ Reported in the Globe and Mail, June 10, 2014 (<http://www.theglobeandmail.com/report-on-business/top-business-stories/bmo-on-canadas-economy-theres-alberta-then-theres-everyone-else/article19088317/>).

THE CANADIAN UNEMPLOYMENT RATE WITH AND WITHOUT THE BOOM IN ALBERTA



The chart shows the implication of this hypothetical experiment for the Canadian unemployment rate since 1995. The blue line shows the actual (observed) Canadian unemployment rate. The movement in that line reflects actual movements in the Canadian unemployment rate. The red line (counterfactual) shows what the Canadian unemployment rate would have looked like had employment in Alberta grown at the same rate as employment in Ontario since 1995.

The difference between the two scenarios is startling.

By August 2014, the unemployment rate that we observe in Canada (7.16 per cent as shown by the blue line) would have been 9.39 per cent had employment in Alberta grown at the same rate as it did in Ontario (as shown by the red line, the counterfactual). That is a 2.23 percentage point difference in the national unemployment rate. That difference is explained by the fact that had employment in Alberta grown at the same rate as employment in Ontario over the period 1995-2014, then by August 2014 there would have been 411,000 fewer jobs.

That last observation in the graph showing the 2.23 percentage-point difference in the Canadian unemployment rate is interesting, but so too is the pattern of change in the red and blue lines since 1995 and particularly since 2000.

For example, the decline actually observed (blue line) in Canada's unemployment rate from late 2003 to early 2008 would have been only half as large had employment in Alberta grown at the same rate as employment in Ontario (the red line). In fact, as measured by the Canadian unemployment rate, the performance of the Canadian economy would have been judged rather lacklustre were it not for Alberta's boom. This same pattern occurred again following the recent recession. Although we have observed a fall in the Canadian unemployment rate since the end of the recession, had Alberta's labour market grown at the rate of Ontario's the national unemployment rate would only have fallen by half as much and would today be creeping back upward.

The graph also shows that whereas the observed unemployment rate in Canada is today almost exactly what it was in 2000, had Alberta's labour market only produced jobs at the same rate as Ontario's labour market, the national unemployment rate today would be 2.5 percentage points higher (9.39 per cent) than it was in mid-2000 (6.80 per cent). Finally, looking at the whole period described in the graph, whereas today the national unemployment rate is nearly three percentage points lower than in 1995, had Alberta's boom not happened the national unemployment rate would be virtually the same as it was 20 years ago.

All this is interesting but care should be taken to interpret calculations like these. Implicit in these calculations are some important assumptions. For example, in calculating the counterfactual experiment, the hypothetical slowdown in the rate of growth in Alberta's labour market is assumed not to affect the size of the Canadian labour force. Labour economists would predict, however, that the higher wages paid in Alberta as a result of the boom attracted more people into the labour force.² Thus, in the counterfactual that eliminates the Alberta boom, the size of the labour force should be adjusted downward and with this adjustment the national unemployment rate associated with the counterfactual would be somewhat smaller as well.

The counterfactual also assumes that the rate of growth in employment in other provinces is not affected by the hypothetical Alberta slowdown. It is difficult to know how this consideration might influence the calculations. On the one hand, Alberta's boom has surely led to job creation in other provinces (think steel for pipelines and locomotives for trains) so the hypothetical slowdown in Alberta would slow job creation in other provinces. If so, the unemployment rate associated with the counterfactual would be even larger than shown. On the other hand, the boom in Alberta may also have created jobs that would otherwise have been created in other provinces; the so-called Dutch disease argument. Proponents of this view would suggest that the hypothetical slowdown in Alberta would have been good for job creation in other provinces causing the national unemployment associated with the counterfactual to be lower than shown.³

A careful analysis of the effects on the Canadian economy of Alberta's boom would need to account for a myriad of other economic influences as well. Economists like to joke that it is difficult to accurately and fully describe the effects of counterfactual experiments because "everything depends on everything else." Behind the joke, however, is a real recognition that every economic decision to buy more of something means buying less of something else and each of those decisions has still further implications not only for spending decisions but also for investment, employment and prices. Economists skilled at this sort of analysis use

² Since 2005, the average weekly wage in Alberta has exceeded that in all other provinces and the gap has been growing. As of 2013, the gap relative to the average weekly wage in Ontario was nearly \$200. Relative to wages in Quebec, the gap in 2013 was nearer to \$300. See CANSIM Table 2810027. For a discussion and a finer examination of these calculations, see *Labour Market Notes*, Alberta Treasury Board and Finance, May 9, 2014 (<http://finance.alberta.ca/aboutalberta/labour-market-notes/2014/2014-05-labour-market-notes.pdf#page=2>).

³ Using the Dutch disease argument to suggest that a boom in Alberta was harmful to the rest of the country gained some notoriety when, in May 2012, Thomas Mulcair, leader of the federal NDP, claimed the connection. The claim drew a speedy response from then Governor of the Bank of Canada Mark Carney who in September of the same year remarked "While the tidiness of the argument is appealing and making commodities the scapegoat is tempting, the diagnosis is overly simplistic and, in the end, wrong." (Remarks by Mark Carney, Spruce Meadows Round Table, Calgary, September 7, 2012 (<http://www.bankofcanada.ca/2012/09/dutch-disease/>)). For a similar conclusion, see Stephen Gordon, "The Canadian Manufacturing Sector, 2002-2008: Why is it Called Dutch Disease?", *SPP Research Papers*, The School of Public Policy, Volume 6, Issue 26, September 2013.

sophisticated general equilibrium models to try to gain at least some rough idea of what would be the impact of an alternative event such as a slowdown of the rate of employment growth in Alberta. All such considerations have been swept under the carpet.

But on top of all these considerations, one would also need to take into account that government policy choices may also have differed had Alberta's labour market not been so strong. For example, had Alberta not been growing so fast between 2000 and 2008, the national unemployment rate would not have been falling — as shown by the blue line in the figure — but would instead have been more or less stagnant. What would that have meant for the monetary policies of the Bank of Canada? Had the Bank responded to the lacklustre performance of the labour market by lowering interest rates, then interest rates would have potentially been lower than they actually were entering the 2008 recession. If so, the Bank would have had less room to use monetary policy to stimulate the economy during the latest recession. The slower rate of growth in Alberta would also have meant that the federal budget surplus would have been smaller, perhaps in deficit, than it was entering the depths of the recession in 2009. Might that have limited the ability or the willingness of the federal government to respond to the recession with a strong stimulus package? If so, how might that have affected the recovery from the recession? Might the Canadian unemployment rate be even higher today than the 9.39 per cent suggested by the counterfactual presented here? If so, what would that mean for the Canadian stock market and international perceptions of the Canadian economy as a place to invest?

Considerations like these make it challenging to try to replay history. I have shied away from trying to suggest I can predict what would otherwise have been. Still, it would seem hard to suggest that the Canadian economy has not benefited from the extra 411,000 jobs that have been the result of the Alberta economy creating jobs faster than Ontario's. That conclusion, though I might wrap it tightly in blankets of uncertainty typical of academics, is largely correct. What is certainly undeniable is that were it not for the economic boom in Alberta, the Canadian economy and the challenges being dealt with by fiscal and monetary policy makers would be very different challenges from those they are in fact dealing with today. Few policy makers would trade the current situation of a 7.2 per cent unemployment rate for the myriad of problems that accompany a 9.4 per cent (and rising) unemployment rate which they would be dealing with were it not for the extended boom in Alberta.



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Dr. Ron Kneebone is a Professor of Economics and Director of Economic & Social Policy in The School of Public Policy, both at the University of Calgary. His published research has dealt with issues pertaining to the political economy of government deficit and debt reduction, the history of government fiscal and monetary relations in Canada and the characteristics of Canadian federal, provincial and municipal fiscal policy choices. More recently, his research has examined issues pertaining to the problem of homelessness and income support for persons with disabilities.