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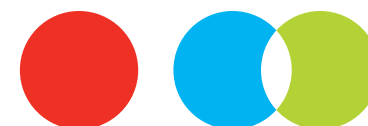
Under Pressure

Tight Labour Markets Are Driving Major Change

Issue Briefing | June 7, 2022



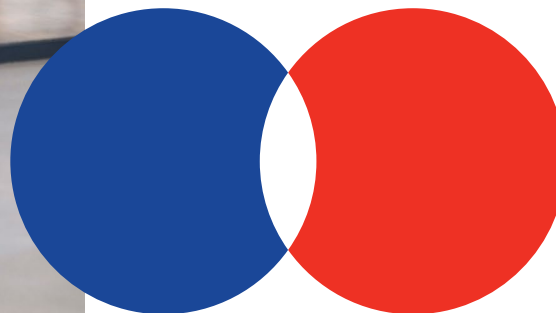
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Key Findings

- Labour markets in Canada are the tightest they have been in decades.
- Employers are responding by changing hiring requirements, with fewer asking for formal educational credentials and experience, and more asking for specific skills and abilities.
- Labour markets are tightest among the sectors where remote work has become most prevalent, including financial and professional services, and where employees are expressing a strong preference for remote work. This is expected to lead to a “new normal” in attitudes about remote work among employers.
- The mix of employment in Canada has permanently changed. Some sectors—like professional and financial services, warehousing and couriers, non-store retailers, education, health, and government—are permanently larger, while others—like portions of the retail and manufacturing sectors, tourism, and recreational and personal services—will see only a gradual recovery in employment, if one occurs at all.



Overview

Over the past two years, Canada's labour market has gone from historic weakness at the beginning of the pandemic to an epic high.

Key indications of the tightness in labour markets include:

- Job vacancies have risen by 54 per cent over the past year.¹
- The unemployment rate reached a record low in April, at 5.2 per cent.²
- The share of people aged 25 to 55 who are working or seeking work is at a record-high 88.6 per cent.³
- Job postings were up 22 per cent in the first three months of 2022, compared with the same period in 2019.⁴
- A record-high 55 per cent of firms are reporting labour shortages.⁵

Although wage growth remains below its pre-pandemic peak, it too has begun to accelerate as the final missing piece in the labour market puzzle falls into place. It is true that some individuals have not fully benefited from the recovery. But, in aggregate, Canada's labour market is the tightest it has been in decades. This has significant implications for the labour market itself (including hiring practices, attitudes about remote work, and the mix of employment in Canada), as well as for the broader economy.

- 1 Statistics Canada, Table 14-10-0371-01, Job Vacancies, Payroll Employees, and Job Vacancy Rate by Provinces and Territories, Monthly, Unadjusted for Seasonality, accessed May 19, 2022. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410037101>.
- 2 Statistics Canada, *Labour Force Survey*, April 2022 (Ottawa: Statistics Canada, 2022). <https://www150.statcan.gc.ca/n1/daily-quotidien/220506/dq220506a-eng.htm?HPA=1>.
- 3 Ibid.
- 4 All job postings data referenced in this report are sourced from Vicinity Jobs.
- 5 Sasan Fouladirad, *Index of Business Confidence: Rising Labour Costs and Shortages of Qualified Staff Weighing Heavily on Investment Intentions* (Ottawa: The Conference Board of Canada, 2022). <https://www.conferenceboard.ca/focus-areas/canadian-economics/ibc/2022/11493>.

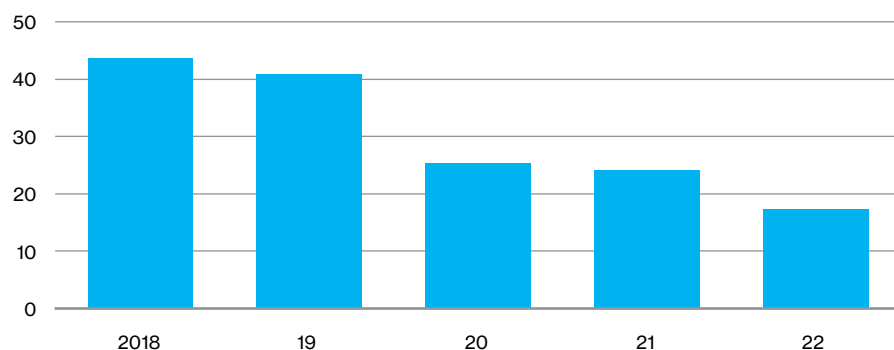


Hiring Practices Are Changing

To attract the workers they need, employers are adjusting the way they recruit. This is apparent in the credentials that employers are asking for in their job postings. For example, only 17 per cent of Canadian job postings in the first quarter of 2022 specifically asked for educational credentials like a degree or diploma. In comparison, this share stood at 41 per cent in the first quarter of 2019. (See Chart 1.) That is a significant drop over the past three years and well below the norms we saw before the pandemic.

Chart 1
Fewer Employers Are Listing Educational Requirements in Their Job Postings

(share of job postings requiring specific educational credentials in first quarter of each year, per cent)



Sources: Vicinity Jobs; The Conference Board of Canada.

This phenomenon is not caused by a change in the types of jobs that employers are hiring for. For example, although the number of postings for jobs that would typically require a university-level education have risen over the past three years, the share of these postings mentioning a requirement for a university degree has fallen considerably. This is true for all other types of educational certification.

Another sign of changing hiring requirements is that fewer employers are stating experience requirements in their job postings. Although the decline is much more modest, it is still an indication of loosening recruitment standards.

Offsetting this reduction in more typical hiring requirements is a gradual increase in job postings that mention specific skills. Examples include increased mentions of specialized skills, such as occupational health and safety, project management, analytical skills, and sales. Employers are also more likely to mention specific technologies and tools in their job ads. The most referenced items in recent months include Microsoft Office products, CRM (customer relationship management) software, SQL (structured query language), and SAP (an enterprise resource planning software). This shift in focus in job ads from broad credentials to specific skills is well aligned with our recent research on how employers can respond to labour and skills shortages.⁶

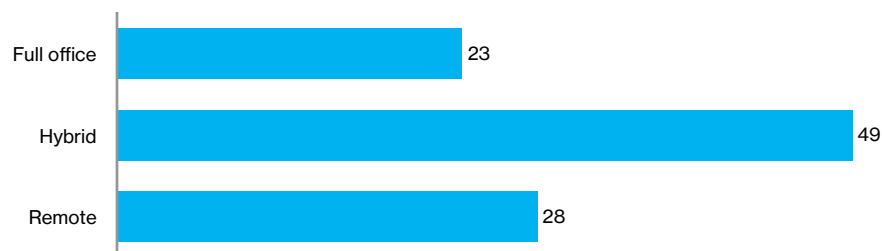
⁶ Nachum Gabler, Sheila Rao, and Thomas Hindle, *A Path Forward: Job Transitions in Canada* (Ottawa: The Conference Board of Canada, 2021). <https://www.conferenceboard.ca/e-library/abstract.aspx?did=11070>.

Remote Work Is Being Normalized

For many, the last two years of remote work have also changed behaviours and expectations related to remote work. Millions of Canadians had no choice but to work remotely for extended periods during the pandemic. This experience allowed many to reflect on the pros and cons of this type of work arrangement. Based on the results of numerous recent surveys, either full-time remote or hybrid work arrangements are now the preferred arrangements for the majority of people who are able to work remotely.⁷ (See Chart 2.)

Chart 2
Most People Who Can Work Remotely Want to Do So at Least Part-Time

(share of survey respondents, per cent)

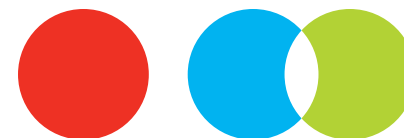


Source: 2020–2021 Employee Wellbeing in Times of COVID-19 survey.

7 Linda Duxbury and Michael Halinski, *Remote, Office, or Hybrid? Employee Preferences for Post-Pandemic Work Arrangements* (Ottawa: The Conference Board of Canada, 2021). <https://www.conferenceboard.ca/e-library/abstract.aspx?did=11398>.

These preferences are reflected in the official labour statistics. Despite pandemic-related restrictions gradually easing, nearly one in five workers in Canada are still fully remote.⁸ This is roughly four times the level it was prior to the pandemic.⁹ What is more, the prevalence of hybrid work arrangements is rising, with nearly 6 per cent of workers now working part-time in the office.¹⁰

The key question is: How will employers respond to these preferences? The most likely answer is that there will be a “new normal” going forward, with a much higher prevalence of hybrid and remote work than we saw pre-pandemic. The key reason for this is that the labour market is tightest among the sectors where remote work has been most prevalent, including financial and professional services. This means that employers will need to tread carefully when it comes to their return-to-office plans. Their decisions will have much broader implications for the economy. For example, how much office space will we need in our cities? And how will demand for mass transit be impacted?



8 Statistics Canada, *Labour Force Survey, April 2022*.

9 Tasin Mehdi and René Morissette, *Working From Home After the COVID-19 Pandemic* (Ottawa: Statistics Canada, 2021). <https://www150.statcan.gc.ca/n1/pub/36-28-0001/2021005/article/00001-eng.htm>.

10 Statistics Canada, *Labour Force Survey, April 2022*.

Employment Mix in Canada Has Permanently Changed

Many of the people who were negatively impacted by pandemic-related shutdowns over the past two years have since found employment elsewhere. This means that as the economy reopens, many of the businesses seeking to expand are constrained in their ability to do so. When this situation is combined with permanent changes in people's behaviour, such as increased online shopping, the result is that where Canadians work, and what they do while they are there, has permanently changed. Our educational systems will need to adapt accordingly.

We use our Model of Occupations, Skills, and Technology to organize sectors into three broad groupings in terms of their employment outlooks. The first group includes industries that are permanently larger. Industries as varied as professional and financial services, warehousing and couriers, non-store retailers, education, health, and government all saw large increases in employment in the past two years. In fact, half a million more people work in these industries today than before the pandemic.

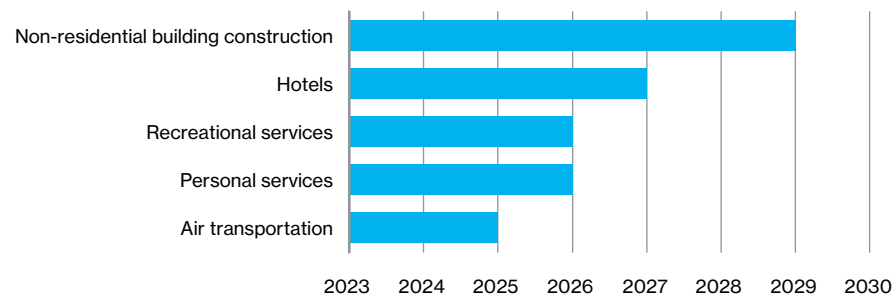
The second group is made up of industries that will be permanently smaller post-COVID. This may be the result of their inability to hire enough people back as the economy reopens, pandemic-driven changes in how people spend their money, and other structural changes, such as technological or environmental considerations. Industries within this group primarily include segments of retail, such as gas stations, clothing stores, and department stores. However, agriculture and portions of manufacturing (particularly those tied to our agriculture sector and non-residential construction activity) will also be permanently smaller.

The final group consists of sectors that will experience “long COVID,” meaning it could take years before they fully recover. These include industries like air travel, hotels, non-residential construction, arts and entertainment, and personal services, such as gyms and laundromats. (See Chart 3.) A slow recovery in demand and labour constraints are key factors influencing the pace of the recovery in these sectors.

Chart 3

Some Industries Will Need a Long Time to Recover

(year when employment will fully recover to its pre-pandemic peak)



Source: The Conference Board of Canada's Model of Occupations, Skills, and Technology.

Implications

The post-pandemic surge in Canadian employment has broad-ranging implications for our labour market and beyond. It is changing the balance of power between employers and workers, resulting in workers having more flexibility in where they work and the type of work they seek. It also has broader macroeconomic implications in terms of growth drivers for the economy and how we prepare people for work.

- **Investment surge needed.** Growth in Canadian business investment in machinery and equipment, research and development, and intellectual property has been weak for much of the past 20 years. The result—many businesses are struggling to grow in the currently tight labour market. We do expect business investment growth to accelerate this year, reaching 5.4 per cent in 2022, its strongest since 2014. However, much more needs to be done if we are to address labour shortages and reach our full economic potential. For example, Canadian business investment in R&D would need to more than double for it to match the OECD average as a share of GDP. It would need to nearly quadruple for Canada to match countries like Germany, the U.S., and Japan.
- **Dig deep for more people.** In addition to investing more, Canadian businesses need to keep looking beyond the usual suspects to meet their labour needs. For example, labour market indicators for workers over the age of 55 have been slower to recover from the effects of the pandemic. As well, Canadian immigration figures reached their highest level since 1913 in

2021, and the targets are even higher for the next several years.¹¹ Given the higher prevalence of remote work, Canada could also begin issuing “digital nomad visas,” which allow people to work remotely from a foreign country, a practice that has grown more popular since the beginning of the pandemic. Fully integrating older workers, immigrants, and other equity-deserving groups into the workforce will help address labour shortages.

- **Expect higher wages.** Tight labour markets mean that wage growth is now accelerating, and stronger gains are expected to persist. Increases will be largest in the areas where labour markets are tightest, including professional and financial services. With wage increases expected to outpace profit growth, businesses will have a rising incentive to invest more.

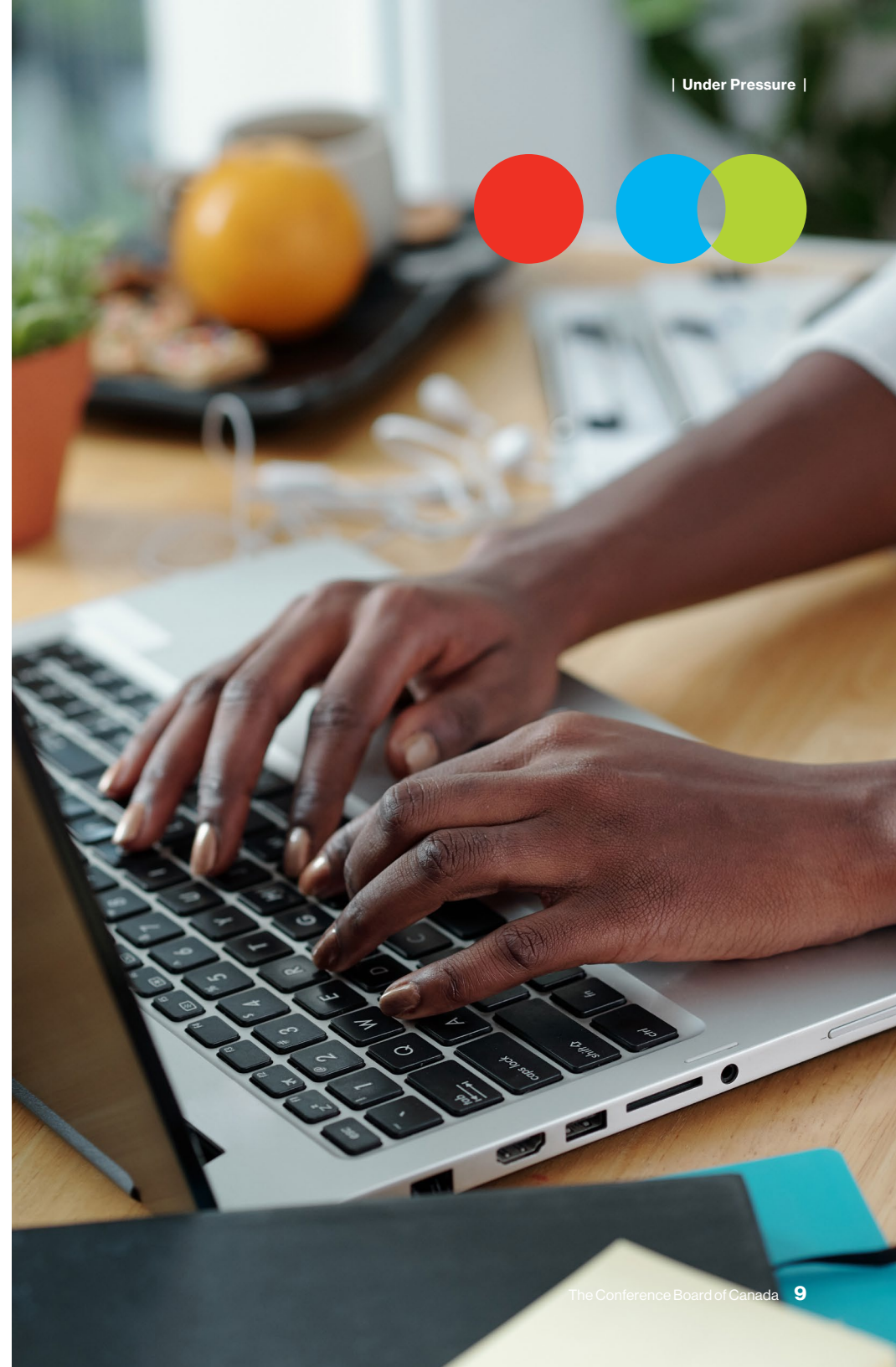


¹¹ Liam Daly, Unconstrained by Restrictions, *Labour Market Tightens: Two-Year Household Income and Employment Outlook* (Ottawa: The Conference Board of Canada, 2022). <https://www.conferenceboard.ca/e-library/abstract.aspx?did=11602>.

- **Adapt educational and training programs.** Given the changes in the nature of work in Canada and the need to help people who are underemployed transition into the roles that are available, our educational and training programs need to continue to adapt. For example, our post-secondary institutions may need to prioritize different programs given the changes in labour demand. As well, those who are mid-career need to focus on lifelong learning. Employers will be a critical part of this change, as they will need to better anticipate their future needs and contribute to preparing their workforces for change before those changes happen. As well, the recent shift in employer recognition of skills through microcredentials or other means will need to continue.
- **Fewer offices, more warehouses.** The pandemic will have extended implications for non-residential construction activity. On a positive note, the surge in e-commerce activity has driven the availability rate for industrial space to a record low of 1.6 per cent. As a result, construction activity is at a record high.¹² Conversely, about 4 per cent of Canadian office space was vacated over the past two years.¹³ And given the strong preference for virtual and hybrid work, absorption will remain weak as employers re-evaluate their need for space. As a result, we expect office construction activity to shrink for several more years.

¹² CBRE, "Canada Industrial Figures Q1 2022," accessed May 19, 2022. <https://www.cbre.ca/insights/figures/canada-industrial-figures-q1-2022>.

¹³ CBRE, "Canada Office Figures Q1 2022," accessed May 19, 2022. <https://www.cbre.ca/en/insights/figures/canada-office-figures-q1-2022>.



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