

Tracking the Early Impact of the Minimum Wage Increase in Ontario (April 2018 Update)

MIXED EVIDENCE OF MINIMUM WAGE MARK ON EMPLOYMENT SO FAR, BUT WAGES AND PRICES REACT

- *Labour Force Survey (LFS)* data for the first quarter of 2018 do not imply a clear impact from Ontario's January minimum wage increase on employment numbers. Figures from the *Survey of Employment, Payrolls and Hours (SEPH)*—available only for January so far—are consistent with the mixed picture reflected in early readings from the LFS.
- Seasonal job losses are dispersed across industries with no significant concentration in those that would likely be the most sensitive to the minimum wage hike. However, a decline in employment in certain occupations may reflect a reaction to the minimum wage hike.
- January data from the LFS and SEPH show mixed effects on weekly earnings of employees in the lowest-wage occupations owing to reductions in the average number of hours worked per week. In contrast, LFS data for the full January-to-March period show more clearly that weekly earnings of these employees have risen since December, with no notable change in the number of hours worked per week alongside large gains in hourly compensation. Further, the growth in average wages across all employees in Ontario exceeds the pace set Canada-wide in the first three months of 2018.
- Prices of certain services have risen in reaction to increased labour costs. They account for around a fifth of the total annual increase in prices in Ontario since last February.

MIXED EMPLOYMENT SIGNALS; CONSPICUOUS IMPACT ON PRICES

On January 1, 2018, the minimum wage in Ontario increased from \$11.60/hr to \$14.00/hr. Note that while the January increase was announced more than half a year prior to implementation, the complete effect of the minimum wage increase may take years to materialise fully in the province. In this report, the second in a series, we consider the initial impact of the minimum wage hike on employment, wages, and prices.

According to Statistics Canada's *Labour Force Survey (LFS)*, employment in Ontario has declined by 25k positions in net terms since December 2017, a 0.3% decrease, which is the 5th largest of any province over that period (chart 1). Total employment in Ontario is nevertheless 1.8% higher than last March, the highest annual rise after Quebec (chart 2).

Job losses are distributed across industries, not just in those that employ a large share of minimum-wage-earning employees. However, certain low-paying occupations experienced substantial employment losses in the first three months of 2018, which may signal a negative effect of the minimum wage hike.

CONTACTS

Juan Manuel Herrera
416.866.6781
Scotiabank Economics
juanmanuel.herrera@scotiabank.com

Chart 1

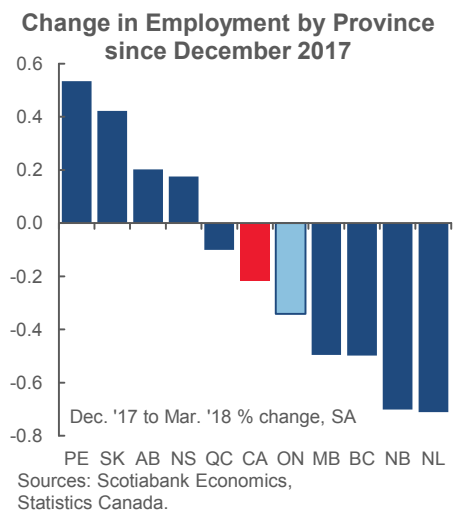
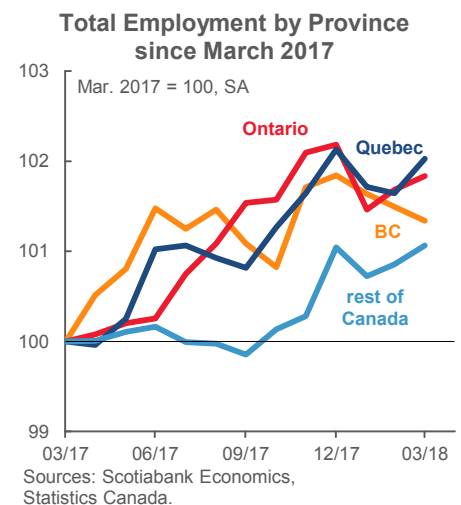


Chart 2



Restaurant and housekeeping and childcare services prices have sharply risen in Ontario since December, outpacing inflation in these categories across the rest of the country by a wide margin. Low-wage employees provide a significant share of these services; the increase in prices likely reflects a transfer of higher wages to consumers.

January data from the *Survey of Employment Payrolls and Hours (SEPH)*, the other major labour survey published at a monthly frequency by Statscan, are in line with the readings in the LFS. Overall, the existing data from both surveys do not yet imply a clear impact from Ontario's minimum wage increase on employment or hours worked, while consumer prices reflect a pass-through of the hike to higher prices for certain services.

EMPLOYMENT LOSSES NOT CENTRED IN MINIMUM-WAGE INDUSTRIES

One way to gauge the impact of the minimum wage increase on employment is by looking at job losses in industries with heavier reliance on lower-wage employees. A large share of employees in these sectors are in customer-facing roles, such as cashiers at fast-food restaurants or salespersons at clothing stores. In 2017, close to two-thirds of employees in the food and accommodation industry and 40% in the wholesale and retail trade sector earned less than \$500/wk Canada-wide. In the remaining industries, only 15% of workers earned below \$500 per week.

Job losses since December have not been more pronounced in industries where low wages dominate; in weighted terms, the average wage in sectors where total employment increased is \$26/hr compared to \$28/hr in industries with job losses. Chart 3 shows the change in employment in each industry in Ontario against average hourly earnings of employees in that sector. In fact, average wages in five of the nine industries where employment has increased are below the all-industry weighted average of \$27/hr. Employment in the food and accommodation industry, which has the lowest median hourly wage of all sectors in Ontario, has increased by 1.6% since December.

DEEPEST JOB LOSSES AMONGST LOWEST-EARNING OCCUPATIONS

In addition to the industry level, changes in employment may also be captured on an occupational basis. While job losses by occupation can hide industry-specific weakness unrelated to the minimum wage hike, declines across several low-earning occupations could reflect firms' inability to employ the same number of employees at now higher wages. The only occupations where median wages in December 2017 were at, or below, the newly-mandated minimum wage are sales support, service support, and salespersons occupations.

Employment in sales support occupations, which include cashiers and store clerks—and saw the biggest jump in median hourly earnings since December from \$11.75/hr to \$14.00/hr in March—has fallen by 21% since the turn of the year in Ontario. This steep decline could signal a negative effect of the minimum wage hike, and shows a sharp reversal from last year when employment gains in these occupations in Ontario largely outperformed the rest of the country, except BC (chart 4).

On the other hand, service support jobs increased by 0.7% since December alongside a large rise in median wages from \$12.39/hr to \$14.00/hr in March; these positions include cleaners, junior fast food employees, and kitchen helpers, among others. Wholesale and retail salespersons employment decreased by 3.6% in the first quarter

Chart 3

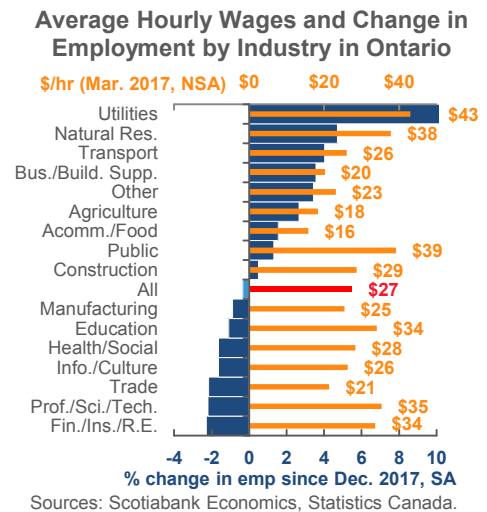
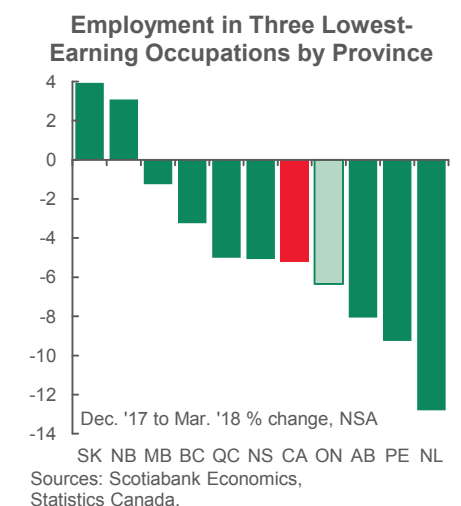


Chart 4



Chart 5



of 2018 in line with a seasonal contraction following the end-of-year holidays, although median wages rose only slightly to \$14.25/hr from \$14.00/hr.

The overall decline in the three lowest-earning occupations in Ontario is the fourth largest amongst the provinces (chart 5). Note that total employment in Ontario as of March 2018 in these occupational groups is 8.3% higher than a year earlier, the sharpest year-on-year expansion across all provinces after BC and PEI, where jobs in these categories have increased by 11% and 10.1% y/y, respectively.

WEEKLY EARNINGS RISE WITH NO NOTABLE DECLINE IN HOURS WORKED

Average hourly wages in Ontario increased for employees in the three-lowest earning occupations (chart 6). In sales and service support occupations the over 10% increase in hourly wages since end-2017 translated into a comparable rise in weekly earnings for part-time employees, reflecting the fact that employees in these occupations did not see a reduction in hours worked, on average. On the other hand, while hourly wages of part-time salespersons have increased by 11.9% since December, weekly incomes for these employees have risen by 8.3% in line with the seasonal decline in hours, which offset some of the gains in wages.

JANUARY SEPH EMPLOYMENT DATA CONSISTENT WITH LFS

Data from the Survey of Employment, Payrolls and Hours (SEPH)—another labour survey carried out by StatsCan and which is available only for January 2018 thus far—do not deviate significantly from LFS data (chart 7). The two surveys differ mainly in the direction of the change in employment in the food and accommodation industry. This discrepancy may be explained by a large upswing in self-employment in the food and accommodation industry in the LFS in January, which was reversed in the following month with a near-equivalent drop. SEPH captures only incorporated self-employed persons, whereas the LFS considers also unincorporated self-employment, which exhibits a higher degree of volatility than incorporated self-employment.

SEPH data show that employees paid by the hour in low-earning sectors saw a notable month-on-month increase in hourly wages, in line with hourly wage increases of low-earning occupations and sectors in the LFS. However, both datasets show a mixed picture in regards to weekly earnings, as the increase in hourly wages of low-wage employees was not enough to offset a—possibly seasonal—reduction in hours worked per week in some sectors or occupations; see Appendix for details. As shown in chart 6 using LFS data, however, this decline was turned around and weekly earnings of wholesale and retail trade salespersons have risen between December and March.

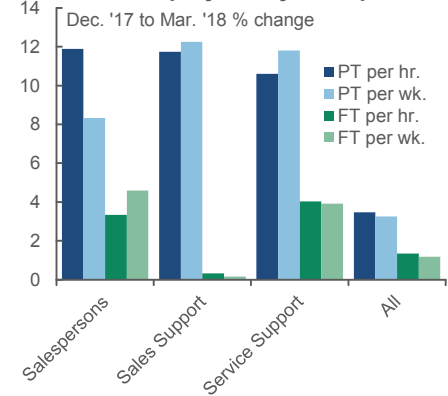
MINIMUM WAGE INCREASE PARTLY PASSED ON TO CONSUMERS

One way for employers to manage an increase in the minimum wage is by raising prices on the services or products they sell. Note that consumer prices data is only available until February 2018 at the moment of publication. Prices in Ontario restaurants rose by 3.6% between December and February; the average price increase at restaurants in other provinces was 0.05% only. Since February 2017, restaurant prices in Ontario have climbed by 6.6% (chart 8) compared to an average increase of 2.8% in the rest of Canada.

Prices for childcare and housekeeping services rose by 7.8% from December to February in Ontario compared to a 0.7% increase in the rest of the country. On an

Chart 6

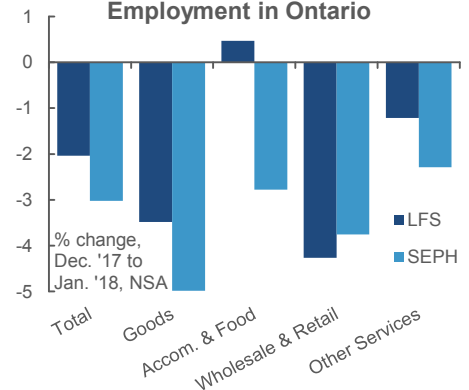
Wages Growth for Part-Time and Full-Time Employees by Occupation



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

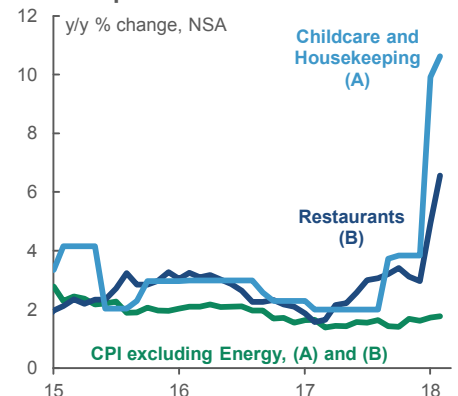
SEPH and LFS: December to January Change in Employment in Ontario



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

'Minimum-Wage' Prices Outpace the Rest in Ontario



Sources: Scotiabank Economics, Statistics Canada.

annual basis, childcare and housekeeping prices have risen by 10.6% in Ontario (chart 7) and 2.8% in the remaining provinces on average. However, the surge in prices in this expenditure category is likely driven by higher wages for cleaning personnel. The Ontario rise is reflected Canada-wide with prices paid for housekeeping services alone climbing by 7.6% since end-2017 compared to 2.2% in childcare services; note that prices for housekeeping services are not published separately from those for childcare services at the provincial level.

If restaurant and housekeeping and childcare prices are excluded from the consumer price index for Ontario, and if we also exclude energy to remove its particular price volatility, inflation in the province rose by 1.8% y/y compared to the ex. energy reading of 2.2% y/y, a difference of 0.4 percentage points (chart 9). Thus, about a fifth of the year-on-year increase in prices appears to be linked to rising prices in 'minimum-wage' services in Ontario. The minimum-wage hike should also have second-round effects on other goods and services that are more difficult to glean from other price categories.

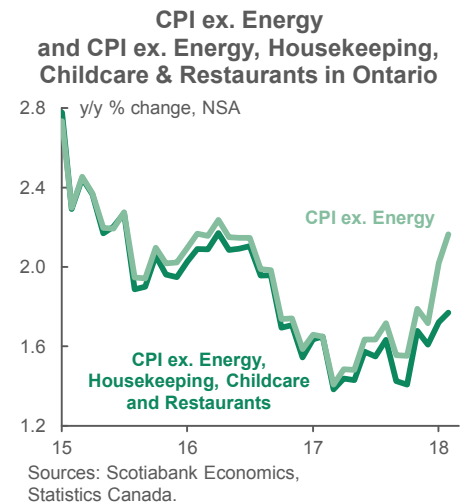
IN CONCLUSION: MINIMUM WAGE IMPACT CLEARER ON WAGES AND PRICES THAN ON EMPLOYMENT

Employment figures from the LFS for the first quarter of 2018 do not clearly imply that Ontario's minimum wage increase has been the cause of job losses in Ontario so far in 2018. Job numbers have increased in the lowest-paying industry—food and accommodation—since end-2017. Rising restaurant and housekeeping prices reflect a transfer of higher wages to the prices charged to consumers, which has provided employers with some flexibility without having to lay off employees. Job losses are not widespread in all low-earning occupations although the drop in the lowest-earning category could be a result of the minimum-wage hike. Data from the SEPH, while available only for the month of January so far, shows a similar story to the LFS.

A stable number of hours worked and higher hourly wages has resulted in rising weekly incomes thus far in 2018, running counter to the suspicion that—while employees earn more per hour—employers find it necessary to cut hours to maintain the same number of workers without lay-offs.

Summing up, while it is still early days in assessing the impact of the minimum wage hike in Ontario, data for the first three months of 2018 do not point to a clear and negative impact so far from the increase. LFS data, while released ahead of those from the SEPH, are sensitive to a relatively high degree of volatility given the survey's estimation methodology; results from the SEPH will prove helpful in assessing the early effects of the minimum-wage rise as a supplement to the LFS data. The trend in both data sets will complete the picture in the following months and years. For now, the total income of employees in the lowest-earning occupations is notably greater than was the case last December. The observed gains in income are likely to provide an important boost to household consumption growth in the province this year and next.

Chart 9



APPENDIX: SEPH AND LFS DATA SHOW A BROADLY SIMILAR STORY

Owing to differences in methodology in the LFS and the SEPH, comparing data series between the two surveys requires caution. Above all, the surveys differ in their respective data collection processes: SEPH is built on enterprise payroll records and LFS data is estimated from household questionnaires.

Chart 7 in the main text shows the percentage change in employment by industry in Ontario, focused on those sectors that have a large share of low-wage workers in both the SEPH and the LFS. In the accommodation and food industry, a large upswing in self-employment in the LFS appears to be responsible for the discrepancy between employment growth in the two data sets. The LFS accounts for incorporated and unincorporated self-employed persons since it surveys households, whereas the SEPH includes data on only incorporated self-employment since it draws on company HR records. It's worth noting that LFS data for February show a reversal of the self-employment surge in the sector.

Since the SEPH does not include wage data on an occupational basis it is not possible to identify directly the change in wages of employees in low-earning occupations. However, the SEPH *does* provide data on the average hourly earnings of wage and salaried employees, respectively. Average hourly earnings of wage employees are equal to around two-thirds of the hourly earnings of salaried employees in the SEPH data. It is safe to assume that workers paid the minimum wage rate are entirely included within the data on employees paid on an hourly basis.

Across low-paying sectors, hourly-paid workers saw a larger increase in average hourly wages than salaried employees. The average wage rate of employees paid by the hour at restaurants in Ontario increased by 7.3% m/m in January, to \$15/hr from \$14/hr in December, compared with no change in wages for salaried employees. Average wages of grocery-store workers also rose from \$15.50/hr to \$16.30/hr for hourly-paid employees, a 5% increase, compared with a 1.2% reduction in wages for salaried employees. Similarly, employees paid by the hour in the wholesale and retail trade industry saw a 6% m/m increase in wages while average hourly wages of salaried employees declined by 4.7% between December and January. The increase in hourly wages of low-earning employees in the SEPH is in line with the rise reflected in wages in the LFS.

In both surveys, the increase in hourly wages from December to January led to mixed effects on weekly earnings owing to a decrease in hours worked in certain occupations and/or sectors. In the SEPH, the seasonal decline in hours worked by grocery store and wholesale and retail trade employees led to a larger reduction in weekly earnings of hourly-paid workers in these occupations than for their salaried counterparts, whose hours worked remained steady. In contrast, the LFS data for January show that part-time salespersons saw a decline in weekly compensation from the previous month, whereas weekly earnings of full-time salespersons rose. In the restaurant industry, the large increase in average wages of hourly employees during January in the SEPH data offset the decrease in hours worked, leading to a larger rise in weekly earnings compared to salaried employees. This was consistent with the LFS findings for January for employees in the food and accommodation industry.

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