Minimum Wage in Ontario: Impact on Jobs?

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- **There is little evidence to suggest that the 51k job losses in Ontario in January can be attributed to the New Year's Day increase in the provincial minimum wage.**
- **Though we are still in the early days of the adjustment to the higher minimum wage, the Labour Force Survey (LFS) micro-data show a movement to the newly-imposed wage floor, with nearly no effect on median earnings.**
- **The full impact of the minimum wage may take several months to pass-through to labour market indicators. Hours worked and employment fluctuations in 'minimum-wage' occupations and industries should be monitored in coming LFS data releases to assess the impact on the Ontario labour market and broader economic repercussions.**

1. ORDINARY MONTH-ON-MONTH DROP IN HOURS WORKED

There is no discernible evidence of a minimum–wage impact on hours worked in Ontario so far. Though the data are not seasonally adjusted**,** the decline in total and average hours worked per employee from December to January is not unusual by historical standards, and is smaller than the long-term average (chart 1). Compared to other provinces, average hours fell the least in Ontario and the decline in total hours worked was the second lowest in the country.

2. NO DISCERNIBLE PATTERN IN JOB LOSSES

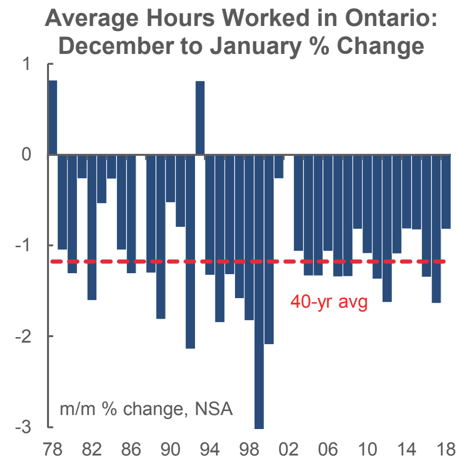
i. By industry:

Employment losses in the province in January were not concentrated in 'minimum–wage' industries. The accommodation and food industry saw an increase in employment of 2.2k people; the sector has the lowest median hourly wage in Ontario, which jumped from $12.00 in December to $13.75 in January. Wholesale and retail trade shed an industry-record 15.5k jobs for the month, following a historical high gain of 28k jobs in November. **The professional, scientific and technical services sector saw the deepest month-on-month drop in jobs at 2.1% on an industry-wide basis** (chart 2); **it also has the highest median wage of all non-government service industries at over $32/hr.**

ii. By occupation:

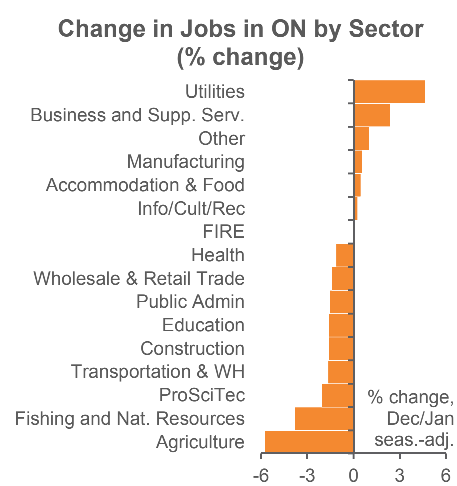
Jobs in sales support occupations, which include cashiers and store clerks, fell by close to 15% or 36k jobs from December to January, its sharpest Dec.–Jan. drop in history. This could be the result of the minimum wage, though this series has been trending downward since mid-2017 (chart 3, next page). Then again, the monthly jobs decline in wholesale and retail salespersons registered its smallest drop since 2011, and employment in these occupations remains buoyant compared to last year (chart 3).

Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

3. TOTAL EARNINGS CONTINUE TO RISE

Total employment earnings in the province continue to grow above the post-financial crisis average on a year-on-year basis, expanding by 5.5% y/y in January (chart 4)**.** A suspicion surrounding minimum wage increases is that while earnings per hour rise, employees work fewer hours. The data do not reflect this for overall labour earnings in Ontario. Total earnings of employees in the accommodation and food sector are among the weakest on a per-industry basis, though these follow weak readings in the second half of 2017.

4. LABOUR FORCE PARTICIPATION DROPS

In principle, raising the minimum wage should lead to higher labour force participation. Yet, the province's labour force fell by 55k people in January. Exits from the labour force in the province are somewhat spread across age brackets, although a steep drop of 5.4% m/m in the 20–24 years age group appears out of the ordinary. However, the youth participation rate in Ontario increased notably during the second half of 2017 and the decrease in January does not show a significant divergence from the post-2010 average (chart 5).

5. WAGES CONVERGE TOWARD NEW MINIMUM WAGE, THOUGH NOT FULLY

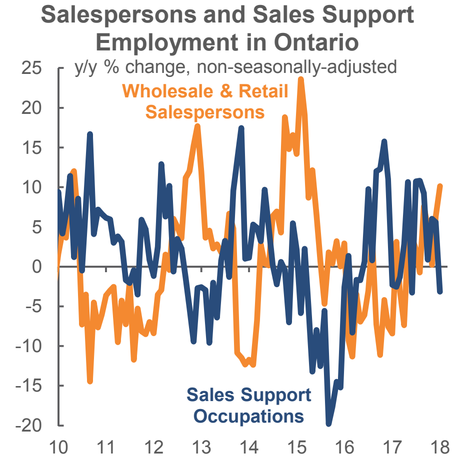
When compared to January 2017, it's clear that the distribution of wages has moved toward the new $14.00 floor from the $11.40 minimum wage in place last year (chart 6, next page). In January 2018, 8.8% of employees earned between $10.00 and $12.50 an hour, versus 14% in the same range last year; 11% earned between $12.50 and $15.00 in 2018 versus 8.7% in 2017. **The minimum wage has effectively pushed lower-earning employees into a higher earnings range without notably altering the median wage**, which increased only from $22.90 a year ago to $23.00 in January 2018.

On a more granular level, the effects of the switch to the new minimum wage level are clearer when one looks only at lower-earning employees (chart 7, next page). There is a decrease in the share of employees making $11.40 and an increase in the share of those earning $14.00.

However, **there remains an unusual share of employees with reported earnings below $13 per hour with a particular cluster at the previous minimum wage level.** The minimum wage for students under 18 is $13.15/hr. For liquor servers it sits at $12.20/hr although reported wages in the LFS include tips, which should put these employees above the $14/hr level. If the omission of tips were an issue, there would be a similar peak at the previous $9.90 minimum wage for servers in the distribution of wages in January 2017, but there isn't one. Thus, these two groups are likely not the reason behind the still relatively high share of sub-$13/hr workers.

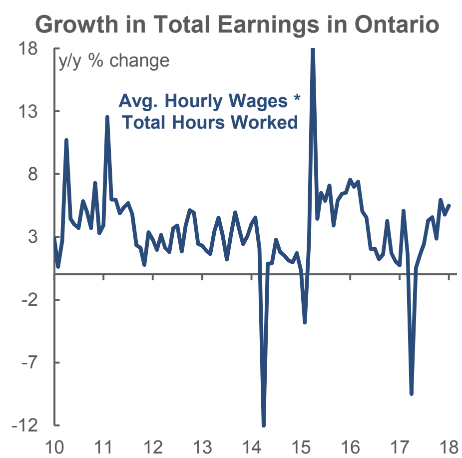
This anomaly may reflect issues in self-reporting by the people surveyed by Statistics Canada. Only one person per household, who remains in the survey for six consecutive months, informs surveyors about the earnings and employment situation of all her/his household members. If the interviewee is not aware of any changes in earnings amongst members of his/her household, readings from the previous month carry forward; thus, there won't be any variation reflected month-on-month in the LFS microdata even if changes have occurred in the household. As interviewees become better informed regarding their household members' wages, subsequent releases should see a smoothing out of irregularities and a full transition to an accurate wage distribution.

Chart 3



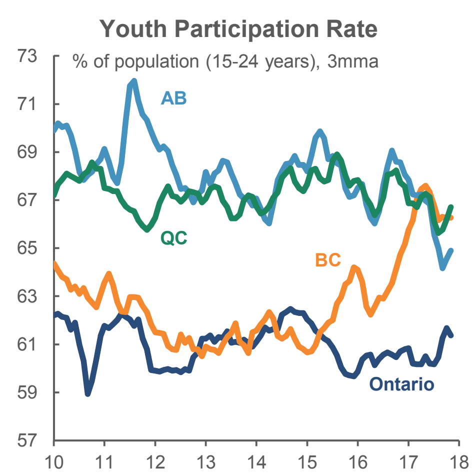
Sources: Scotiabank Economics, Statistics Canada.

Chart 4



Sources: Scotiabank Economics, Statistics Canada.

Chart 5



Sources: Scotiabank Economics, Statistics Canada.

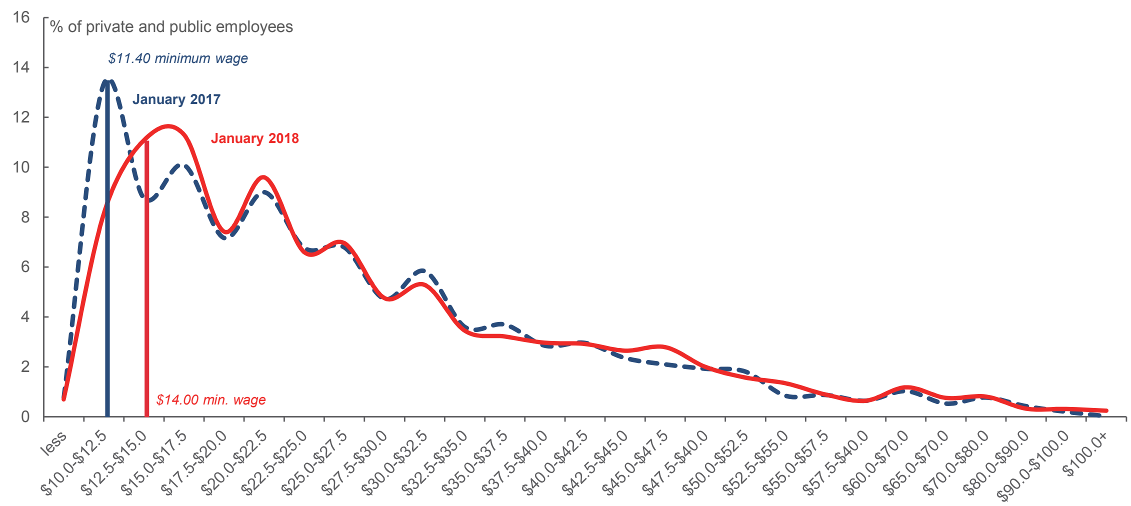
6. SUMMING UP: TRANSITION TO NEW MINIMUM WAGE WILL TAKE TIME

January's data do not yet imply much of an impact from Ontario's minimum wage. While the January 1 increase was announced more than half a year prior to implementation, employers in the province may take several months to assess its impact on their bottom lines. Month-on-month changes are also notably volatile and revisions are likely. As exemplified by the two peaks in chart 7, the Labour Force Survey likely suffers from some self-reporting issues that should gradually smooth out as information regarding wage changes makes its way to the survey's respondents.

January readings from the Survey of Employment, Payrolls and Hours (SEPH)—which incorporates hard data from businesses—are not due for release until late-March. By this time a full quarter of LFS data will be available, which would likely obscure the market relevance of SEPH. Since SEPH data are based off payroll figures they do not suffer from self-reporting problems regarding changes in wages or employment. Prior to the Bank of Canada's meeting on March 7, February LFS data should present an additional hint about whether January job losses in Ontario were an anomaly or an initial reflection of a minimum wage impact.

Chart 6

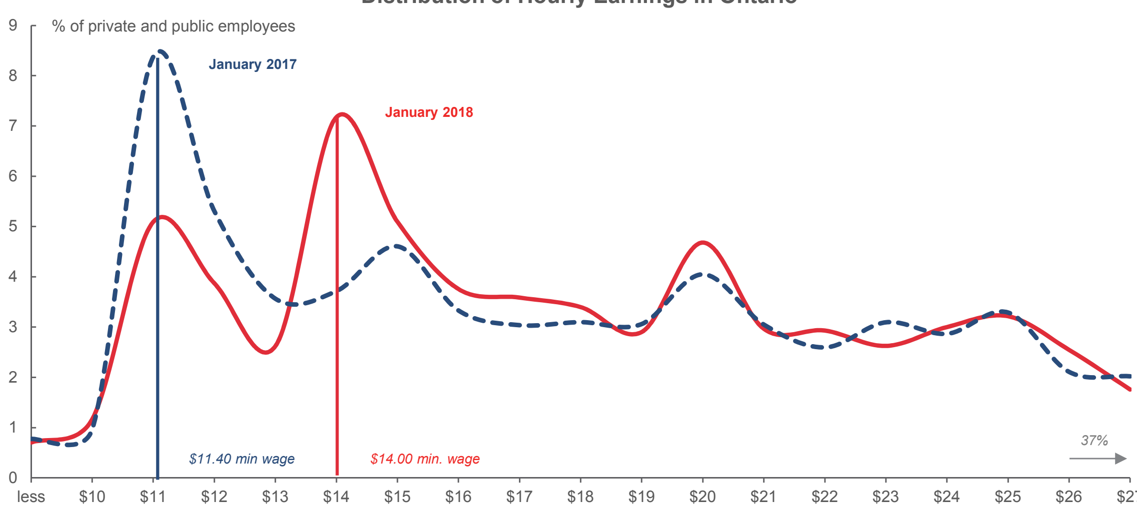
Distribution of Hourly Earnings in Ontario



Source: Scotiabank Economics, Statistics Canada Labour Force Survey Microdata.

Chart 7

Distribution of Hourly Earnings in Ontario



Source: Scotiabank Economics, Statistics Canada Labour Force Survey Microdata.