

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

EMPLOYMENT IMPACT APPEARS MODEST SO FAR, BUT EMPLOYEE EARNINGS AND WAGES RISING QUICKLY

- After January’s large job losses—even after correcting for the usual post-holiday slump—Ontario has added positions in each of February, March, and April for a small net loss in seasonally-adjusted terms. Ontario’s net job losses so far in 2018 are proportionally similar to those in the other provinces, but in year-on-year terms the pace of employment growth in Ontario is outpacing that of the other provinces.
- Average hours worked per employee in Ontario are relatively flat since end-2018 across most industries except for sector-specific seasonal fluctuations.
- Hourly wages in Ontario are increasing at the fastest pace of all provinces aside from BC; weekly earnings are also rising quickly given that the number of hours worked remains stable. Employees in minimum-wage sectors in Ontario have seen the largest rise in earnings of all industries in 2018.
- Workers aged 15 to 24 have reaped the largest gains from the minimum wage hike, with the rise in youth wages significantly outpacing the gains of older employees.
- A steep drop in Ontario’s youth employment—which underpins the year-to-date net decline in jobs in the province—appears to have been driven by cuts in positions in the retail sector where sales began slowing in late-2017 ahead of the minimum wage rise. Abstracting from the retail sector, employment in Ontario’s low-wage industries has otherwise increased since December.
- Employers in some services sectors appear to be passing on the minimum-wage hike to consumers. Price increases on their services account for around a fifth of the total annual increase in prices in Ontario over the last 12 months.

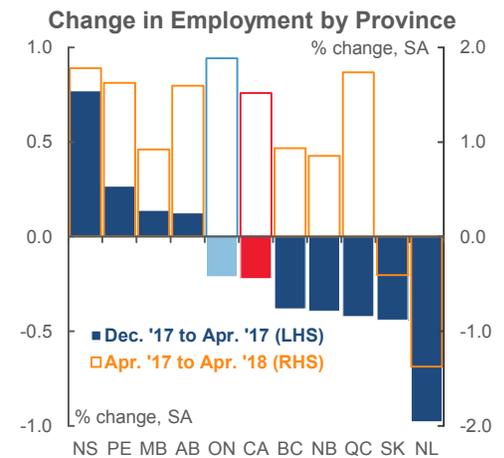
ONTARIO REVERSES JANUARY JOBS CUTS; WITH STABLE HOURS, RISING WAGES AND EARNINGS

Labour Force Survey (LFS) data for April show that Ontario shed net 15k jobs in the first four months of 2018, though this decline is fully attributable to a seasonally-adjusted 51k drop in employment between December and January; employment has increased in each month since. In the five provinces where employment has decreased so far in 2018, the percentage decline since end-2017 was the least pronounced in Ontario, at -0.2%, equivalent to the Canada-wide drop. Notwithstanding the January decline, Ontario led the country in job growth in year-on-year terms in the month of April (chart 1).

CONTACTS

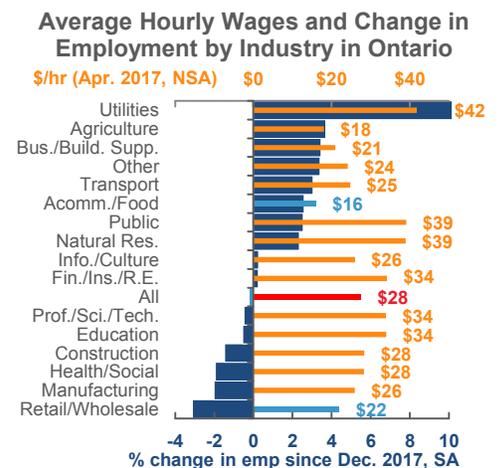
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Job losses and gains have been scattered across industries with no concentration amongst those sectors with a relatively higher dependence on minimum-wage employees (chart 2). In January 2018, the mandated minimum wage in Ontario increased from \$11.60 to \$14.00/hr. The lowest-wage sector, food and accommodation, has expanded its workforce by 2.6% since December. On the other hand, wholesale and retail employment, where hourly wages are also relatively low, has fallen by 3.1% so far in 2018; however, this decline likely owes to a prior slowdown in retail sales rather than the minimum-wage increase.

Hours worked per employee are relatively flat for the year in most industries in Ontario—as in the rest of the country—and industry-specific declines are in line with seasonal fluctuations. Hours worked in the lowest median-wage industry in Ontario, food and accommodation, declined slightly in early-2018 alongside a slump in sales that is customary in the post-holiday period.

Hourly wages in Ontario are rising quickly on the back of the minimum wage hike and outpacing most other provinces in year-ago terms in April. Hourly wages have increased by 4.3% y/y in Ontario compared to a Canada-wide increase of 3.6% y/y. BC leads the provinces at 5.6% y/y (chart 3) owing to double-digit growth in finance and real estate-related wages following depressed earnings in the sector in early-2017.

The pace of growth in weekly earnings in Ontario has reached its highest level since mid-2015 in tandem with rising hourly wages and stable hours. At 4.6% y/y in April, the increase in weekly wages in Ontario is the steepest of the provinces after BC and PEI (chart 3).

YOUTH EMPLOYEES SEE LARGEST WAGE GAINS BUT LEAD JOB LOSSES YTD IN ONTARIO

Hourly wages of youth employees have sharply risen following the January minimum wage hike in Ontario (chart 4). Together with a stable number of hours worked, employees aged 15–24 have seen the largest increase in weekly earnings among all age groups in the province (chart 5): they expanded by 11.9% y/y for the month of April compared to 3.8% y/y for workers 25 and over, whose average weekly earnings are two and a half times that of youth employees.

The increase in hourly wages and weekly earnings of youth employees since end-2017 is more pronounced in minimum-wage industries relative to the rest (charts 4 and 5). Since December, weekly earnings of youth employees have risen by 21% in the wholesale and retail industry, and by 13% in the food and accommodation industry, compared to a 3.6% increase for youth workers in the remaining industries in weighted average terms; in both sectors, hourly wages have increased by 14% year-to-date.

Chart 3

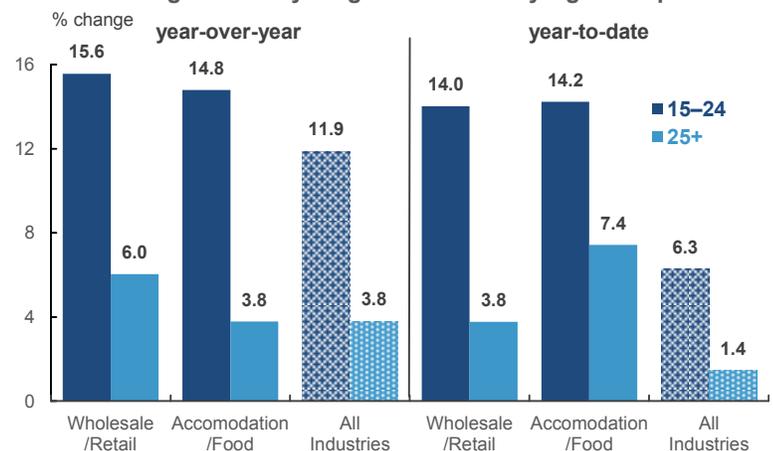
Change in Hourly Wages and Weekly Earnings by Province



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

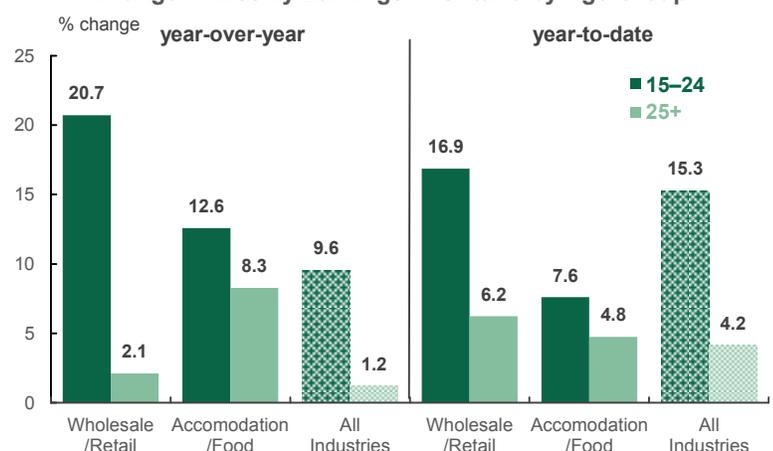
Change in Hourly Wages in Ontario by Age Group



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

Change in Weekly Earnings in Ontario by Age Group



Sources: Scotiabank Economics, Statistics Canada.

Ontario youth employment has contracted substantially in 2018, but this doesn't appear to have been driven by the minimum wage increase. Youth employment has lost a net 15k positions so far in 2018 compared with a net gain of 2.6k jobs amongst people over age 25.

Instead, the recent decline in youth jobs is likely a result of a pullback in the retail sector that predated the January 1 minimum-wage increase. In the retail industry, youth jobs have declined by 16% year-to-date; in a sector where the median wage is the second lowest across industries. Retail sales excluding autos and gas have contracted for two consecutive quarters since Q4-2017, in seasonally-adjusted terms, after 2017 when the industry posted its strongest year-on-year performance since the 1990s and increased its workforce by 7%. Weak retail sales may be a by-product of exceptionally poor weather and adjustment to tighter mortgage lending rules. Retailers have responded to slowing sales by reducing the number of youth employees on payroll by 37k since December 2017 (chart 6). Nevertheless, March retail sales ex. autos and gas closed out the first quarter on a strong note, which could bring back some of the loss of youth jobs in the sector.

Youth employment is up year-to-date in the lowest median wage industry—food and accommodation; strong restaurant sales growth has supported a 15k increase in youth jobs since late-2017 despite the median wage rising from \$12/hr in December to \$14/hr in April.

MINIMUM WAGE HIKE PASSED ON TO CONSUMERS

The minimum wage hike has been passed on to consumers through higher prices in sectors with a large share of minimum wage employees: prices for restaurant, housekeeping and childcare, and personal services have quickly risen in the first third of 2018. **Price inflation in 'minimum-wage' services in Ontario has soared past the rise in the same categories in the rest of Canada, and over the remaining items in the consumption basket in Ontario** (chart 7).

The rise in 'minimum-wage' sector prices accounts for around a fifth of total year-on-year inflation in Ontario. If restaurant, housekeeping and childcare, and personal care prices are excluded from the consumer price index for Ontario, and if we also remove energy to control for its particular volatility, inflation in the province rose by 1.7% y/y in April compared to the ex. energy reading of 2.2% y/y; the difference between the two inflation measures sits at 0.5 ppts compared to 0.1 ppts in December 2017 (chart 8). The minimum-wage hike should also have second-round effects on other goods and services in the coming months but these will be more difficult to identify.

SUMMING UP: STABLE JOBS NUMBERS, RISING WAGES AND EARNINGS

In the first four months of the year, Ontario's labour market appears to have experienced relatively muted job losses so far in response to the January minimum wage hike. Apart from a large decline in employment in January, employment in Ontario has increased in every month since, and on a year-on-year basis exceeds job growth in the rest of Canada.

Hours worked are stable across most industries, and together with a quick rise in hourly wages weekly earnings in Ontario are growing at one of the fastest paces of all provinces; employees in low-wage industries and youth workers have seen the largest increases in wages in 2018.

Chart 6

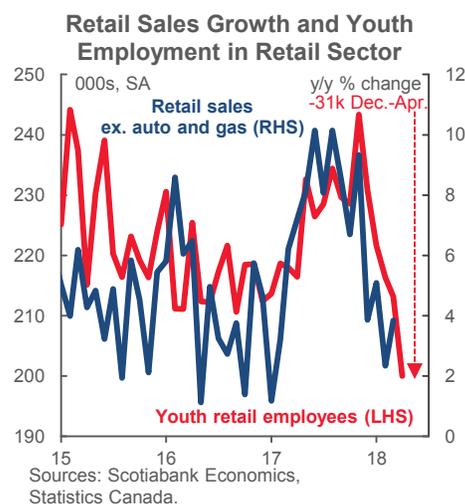


Chart 7

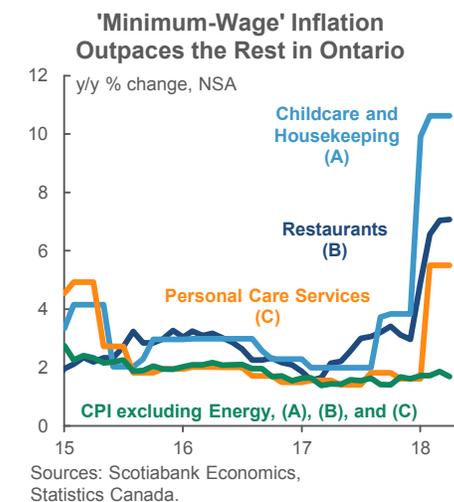
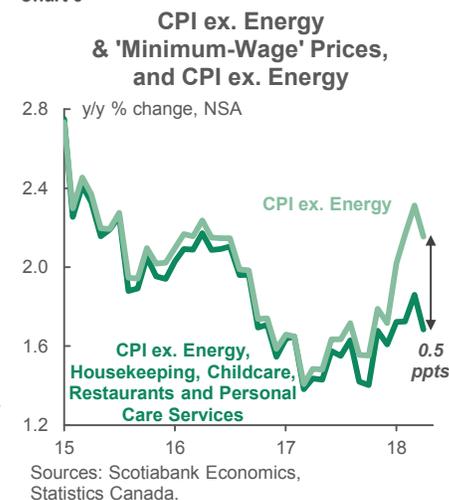


Chart 8



A large decline in youth jobs in the retail sector is behind the year-to-date net contraction in employment in the province. Job losses in the retail sector appear to follow from a—likely temporary—slowdown in sales after a solid performance last year.

Higher labour costs have been passed through to consumer prices in minimum-wage sectors, which has relieved some of the bottom-line impact on employers' books. Pass-through of the minimum wage hike accounts for around a fifth of total year-on-year inflation in Ontario.

This analysis comes with our usual caveat that it is still relatively early to discern the full impact of the minimum wage hike on employment in the province. Existing data, however, imply on balance an overall muted impact on jobs and a positive effect on wages and earnings.

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