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# The Economic Crisis through the Lens of Economic Wellbeing

REPORT HIGHLIGHTS

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OF WELLBEING  
Measuring what matters

On June 10, 2009 the Institute of Wellbeing released the first Living Standards Domain Report prepared under the auspices of the Canadian Index of Wellbeing (CIW). The report presented an historical overview (1981-2007) of the capacity of the Canadian economy to grow and, more importantly, to transform economic growth into a stable, current and future income stream for Canadians.

The report demonstrated that, overall, Canadians had become better off in terms of income and wealth, but that inequality had increased – it was the top 20 percent of households that enjoyed the lion’s share of benefits from economic growth. The report also showed that little progress had been made in reducing poverty and that the social safety net continued to fray.

At the same time as the report was released, the Institute recognized that Canadian living standards had changed dramatically since the onset of the recession in the last quarter of 2008. A further report was commissioned to assess the impact of the recession and its implications for the future.

*The Economic Crisis through the Lens of Economic Wellbeing* looks at how the recession has unfolded in Canada. It examines how previous recessions have affected income, unemployment and poverty rates, looks at how these factors have affected Canadians to date, and how they will continue to do so in the future. It also makes policy recommendations for easing the worst effects of the recession on low income, middle income and unemployed Canadians.

## **Trends**

An examination of data from 2008-2009 reveals the following trends:

- The recession has reduced wealth significantly.
- Income losses generally affect low and middle income households more than wealthy ones.
- The substantial job losses have been entirely due to decreases in full-time employment.
- Based on previous recessions, the poverty rate will likely increase by the same number of percentage points as the unemployment rate.
- It will likely be many years before we return to pre-recession unemployment and poverty levels.

The report recommends that governments adopt two priorities in dealing with the recession: designing and implementing income supplements and retraining for those who have lost their jobs; and stimulus measures to offset the shortfall in private spending.

## Report Highlights

The following are the key highlights of the report:

### We've Lost Much of Canada's Growth

- From the mid-1990s until the start of the recession, Canada's economic growth was robust, with positive effects on the standard of living of Canadians. The current recession will erase many of these gains.
- Between the peak in the third quarter of 2008 and the end of the first quarter in 2009, real output fell 2.3%. Manufacturing accounted for 55.6% of GDP decline.
- Government spending in that period added about 0.3 percentage points to GDP, preventing the economy from falling into an even deeper recession.

### Those of us who are Poor will be Hit Harder than those who are Wealthy

- Declines in personal income are never shared equally across a population.
- Lower and middle income households experience much larger percentage losses of income than higher income households. In the last two recessions in Canada, the average market income of the bottom 20% of families dropped by 37.8% and 71.4% respectively, and the middle 20% by 12.6% and 19.2%, compared to only 3.0% and 5.1% for the top 20%.
- There is no reason to believe that the current recession will be different in terms of who will suffer the greatest and least loss of income.

**Peak-to-trough decline in average real market and after-tax income of Canadian family units in the recessions of 1982-1983 and 1990-1993, by quintile**

	Market Income		After-Tax Income	
	1980 to 1983	1989 to 1993	1980 to 1983	1989 to 1993
<b>Bottom Quintile</b>	-37.8	-71.4	-4.1	-11.7
<b>Second Quintile</b>	-20.5	-36.0	-9.3	-12.7
<b>Third Quintile</b>	-12.6	-19.2	-9.1	-11.2
<b>Fourth Quintile</b>	-7.7	-10.4	-6.7	-7.9
<b>Top Quintile</b>	-3.0	-5.1	-4.0	-5.6
<b>All Family Units</b>	-8.3	-12.5	-6.1	-8.4

Source: CSLS calculation based on Statistics Canada, CANSIM Table 202-0701.

## We've Seen Large-Scale Job Losses

- Employment peaked in October 2008, when 17.2 million Canadians had jobs. Between October 2008 and May 2009, Canada lost a net 362,500 jobs.
- All of the job losses were among full-time workers (-406,100 persons), with increases in part-time employment (+43,600 persons) and self-employment (+3,400).

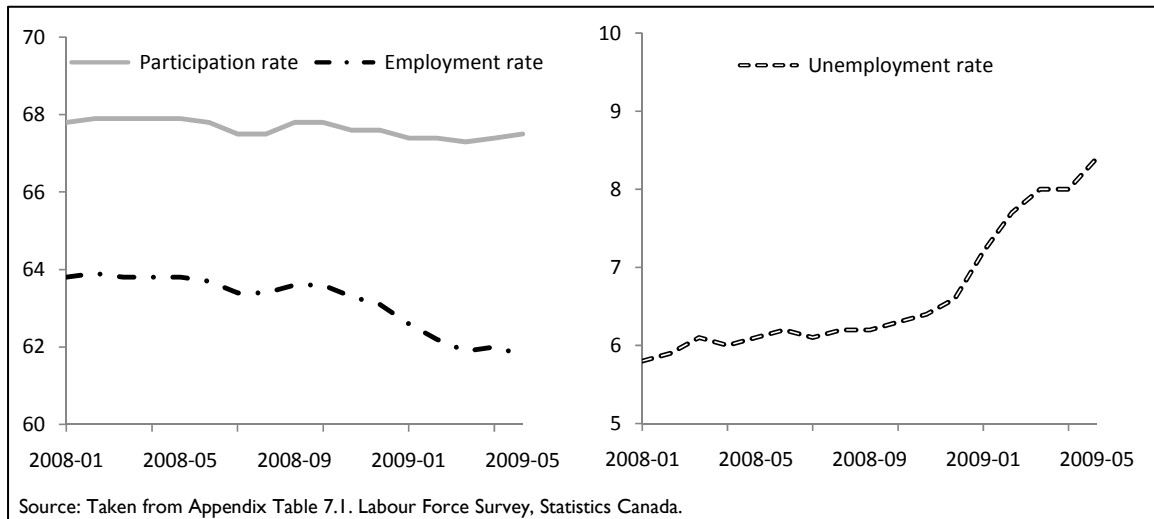
**Employment by Full-time/Part-time Status and Class of Worker, October 2008 to April 2009**  
(Seasonally adjusted, thousands of persons unless otherwise noted)

	Total Employment	Full-time or Part-time		Class of Worker			
		Full-time	Part-time	Employees	Public sector employees	Private sector employees	Self-employed
	A = B + C or D + G	B	C	D = E + F	E	F	G
<b>2008-10</b>	17,194.7	14,004.2	3,190.5	14,543.3	3,461.9	11,081.5	2,651.4
<b>2008-11</b>	17,131.4	13,973.8	3,157.6	14,475.7	3,426.3	11,049.5	2,655.7
<b>2008-12</b>	17,111.0	13,921.7	3,189.3	14,452.6	3,446.7	11,005.9	2,658.4
<b>2009-01</b>	16,982.0	13,807.8	3,174.2	14,309.4	3,404.7	10,904.7	2,672.6
<b>2009-02</b>	16,899.4	13,696.9	3,202.5	14,254.7	3,380.5	10,874.3	2,644.6
<b>2009-03</b>	16,838.1	13,617.4	3,220.7	14,188.3	3,381.8	10,806.5	2,649.8
<b>2009-04</b>	16,874.0	13,656.8	3,217.1	14,187.2	3,391.1	10,796.1	2,686.8
<b>2009-05</b>	16,832.2	13,598.1	3,234.1	14,177.4	3,417.8	10,759.6	2,654.8
	<b>Change (Number of Persons)</b>						
<b>2008-10 to 2009-04</b>	-362,500	-406,100	43,600	-365,900	-44,100	-321,900	3,400
	<b>Change (Per cent)</b>						
	-2.1	-2.9	1.4	-2.5	-1.3	-2.9	0.1

Source: Taken from Appendix Table 7 and 8. Labour Force Survey, Statistics Canada.

- Year-over-year employment in May 2009 (unadjusted for seasonality) decreased more among permanent employees (-2.7% percent) than among temporary employees (-1.8 percent). In other words, not only has the recession driven many workers out of the workforce, it has also increased the proportion of workers in more unstable job categories.
- The large employment losses are reflected in the employment rate, which fell from 63.6% in October 2008 to 61.8% in May 2009, and the unemployment and participation rates. Unemployment increased by 2.1 percentage points from 6.3% to 8.4% and the participation rate fell 0.3 percentage points, reflecting in part the deterioration of labour market conditions.

### Employment, Participation and Unemployment Rates in Canada, January 2008 to May 2009 (percent)



- Ontario experienced the largest job loss of any province, both in absolute (-233,600 persons) and percentage terms (-3.5 percent). It alone accounted for more than half the employment decline in Canada. The other two provinces that experienced large job losses were British Columbia (-50,200 persons) and Alberta (-41,700 persons).

### Poverty Rates will Likely Go up for Many Years

- Poverty data are produced with a long lag of approximately 18 months. But it is possible to obtain an idea of the effect of the economic crisis on poverty by looking at the relationship between poverty and unemployment in previous recessions.
- In the recession of the early 1980s, the unemployment rate increased by 4.4 percentage points, but after-tax poverty increased by only 2.4 percentage points. At the time, Canada had a relatively strong social safety net.
- In the recession of the 1990s, the unemployment rate increased by 3.9 percentage points, and after-tax poverty surged by 4.1 percentage points. This followed cuts to EI that significantly weakened the program's ability to lift people out of poverty.
- Based on this experience and a weakening of social assistance, particularly in Ontario, the poverty rate triggered by the current recession should increase by about as much as the unemployment rate in percentage points. If the unemployment rate peaks at around 10% in 2010 as is currently projected, there will be an increase of about 4 percentage points in the after-tax poverty rate, which would reach 13.2 per cent in 2010 – a level not seen since 1998.

- It will most probably take many years, possibly up to a decade, for poverty in Canada to return to its 2007 level. Following the 1990s recession, for example, it took 18 years for Canada to return to its 1989 poverty level.

### **History doesn't have to Repeat Itself**

- From a public policy perspective there are two priorities in dealing with the recession. First, since the costs of the recession are very unevenly distributed, hitting primarily those who lose their jobs, it is important from both an equity and efficiency perspective that these individuals be treated with particular care and that income supplement and retraining programs be designed and implemented to meet their needs.
- Secondly, it is important that governments offset as much as possible the shortfall in private spending that prevents the economy from operating at full capacity.
- Fortunately, Canada is currently well positioned to accomplish these objectives due to its low debt-to-GDP ratio.