Report Summary

Strategies For NL's Shrinking Workforce: Regional Approaches for Regional Impacts

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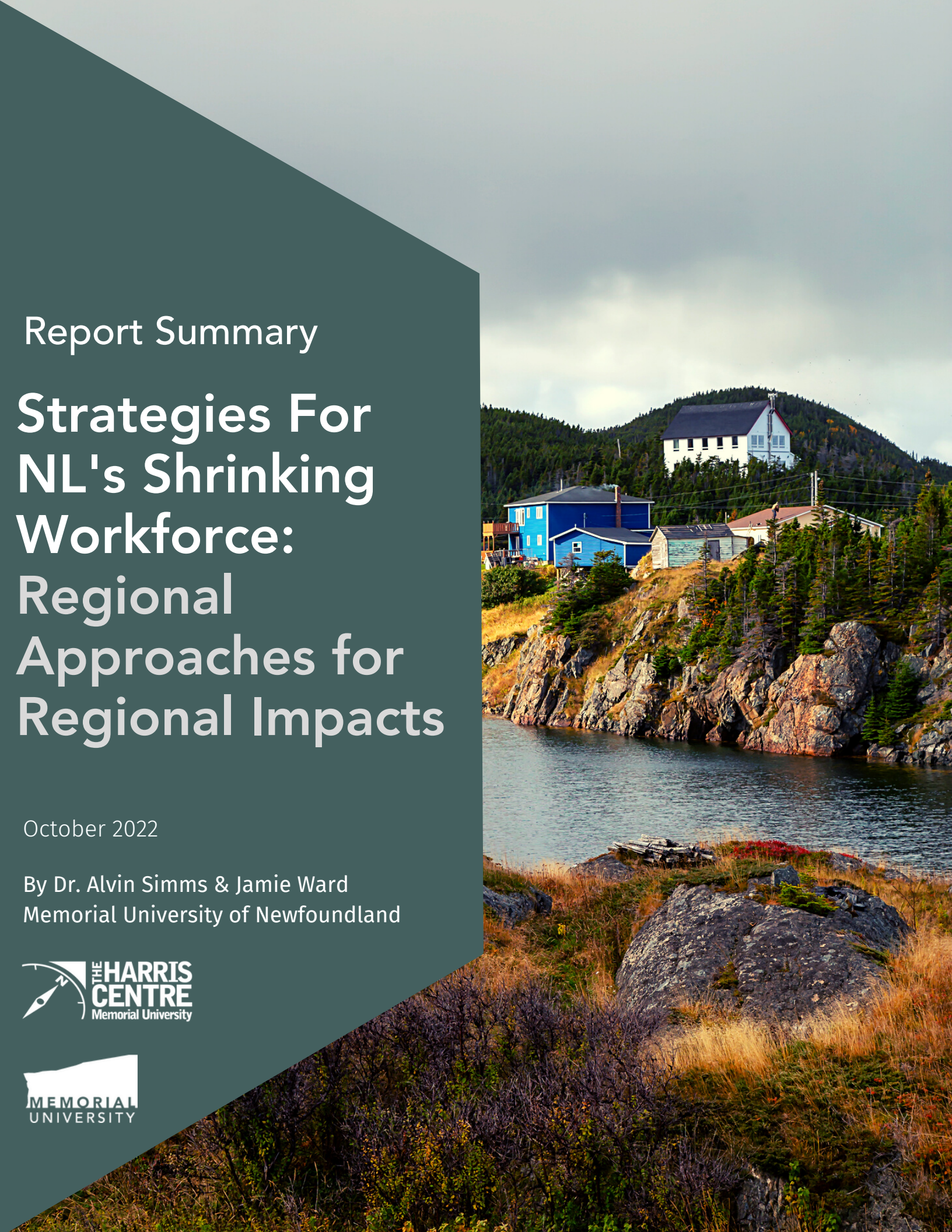


NL Context



GEOGRAPHICALLY LARGE, SMALL POPULATION

Newfoundland and Labrador (NL) is the second smallest province in Canada and the island portion is physically separated from the rest of the country. The province is far from North American population centres that are major sources of economic and social activity, and is only weakly attached to the continent-spanning trade flows that link Canada, Mexico, and the United States.



RESOURCE-DRIVEN ECONOMIC VOLATILITY

NL's economy has been driven for centuries by the exploitation of highly productive fisheries, and more recently by timber, mining, and oil production, but this has resulted in resource-driven economic volatility.

LABOUR FORCE SUPPLY ISSUES

Historically, the provincial economy had difficulty in expanding quickly enough to create sufficient jobs to employ its potential labour supply, but more recently significant workforce shortages have developed. These shortages will become more challenging as older workers continue to retire and cannot be replaced by a smaller cohort of new workers.

HIGH PUBLIC-SECTOR EMPLOYMENT

Public sector employment, whether federal, provincial or municipal, accounts for a larger share of total employment in NL than is the case in other provinces. This is especially true for areas outside the St. John's metropolitan region, making these communities highly vulnerable to any reductions in government revenue or to smaller financial transfers to lower levels of government.



REGIONAL DIFFERENCES WITH VARYING ECONOMIC OPPORTUNITIES

The province is highly diverse with a variety of economic opportunities in its different regions. While the Avalon Peninsula & Labrador are recognizable regions, other parts of Newfoundland are not as easily defined, although differences among the South Coast, West Coast & Central regions are generally recognized. We developed an initial set of boundaries for these last 3 regions to demonstrate the magnitude of differences across the province.

LOW LABOUR FORCE PARTICIPATION RATES AND HIGH UNEMPLOYMENT

Compared to other provinces, Newfoundland and Labrador is characterized by a lower labour force participation rate and higher rates of unemployment, including a considerably greater use of seasonal Employment Insurance. This leads to a lower share of the working age population being employed than in other provinces.

> *The different regions of the province face distinct opportunities and challenges, which a single province-wide approach cannot address. Resolving budget problems is vital, but attaining economic prosperity for all of NL will require a devolution of authority and responsibility and funding to implement new region-specific development approaches.*

Labour Markets in Newfoundland & Labrador



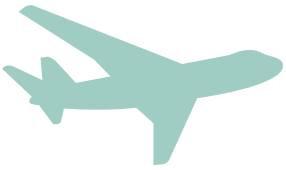
Historic Underemployment

Workers in NL have experienced chronic underemployment for most of the last 50 years. This can been seen through:

- High rates of outmigration to other provinces.
- Consistent relocation of younger people to St. John's, which is the only local labour market in the province that is growing in terms of significant new employment opportunities.
- Low investments by individuals in the acquisition of formal education and skills.
- A high rate of long-distance commuting to work in other provinces.
- Low rates of labour force participation.
- A high reliance on seasonal employment.







Much of NL's Employment is Seasonal or Part-Time

Full-time employment is concentrated in the service sectors, both private and public. A large share of private sector employment in the province is seasonal or part-time, especially outside St. John's. Many of these workers depend on seasonal Employment Insurance (EI) to supplement their income. Reliance on seasonal EI has two effects:

1 It encourages workers to remain in a low-wage seasonal job because their wage is higher with part-time employment.



2 It may reduce the incentive for firms (like small fish plants for example) to modernize their technology to increase productivity, releasing workers for other jobs.



Most municipalities are small and distant from each other, which makes local labour markets small and only weakly connected to each other. This can make it hard for employers to find additional workers, and often requires people seeking employment to have to relocate if they are to obtain a job.

Regional Employment Characteristics



Most municipalities have a small number of employers and produce a narrow range of goods and services. Many of these sectors have small multiplier effects. In other words, increased employment in a particular firm has limited impact on the local economy because additional direct jobs do not lead to much additional employment in other local firms.

In most regions, except the Avalon, it can take more than 10 new direct jobs to induce an additional job in another local firm. In the Avalon region, it is closer to 5 direct jobs to induce 1 additional job. In contrast, the Avalon Peninsula region accounts for a little over 62% of all employment in the province.



Employment Multiplier Effect

Outside Avalon

10 → 1

10 Direct Jobs Needed

1 Additional Job in another local firm

Avalon

5 → 1

5 Direct Jobs Needed

1 Additional Job in another local firm

Primary industries such as Forestry and Logging, or Fishing, Hunting and Trapping, along with first stage processing, such as Seafood Processing, have multipliers that are somewhat larger than they are for service industries, because they are more likely to purchase inputs from other local firms.

Demographic Decline



Between now and 2030, the province will see a rapid aging of its population and a significant decline in the number of people available for work.



During this time, births and net-in migration are projected to be less than deaths, even as older people live longer, resulting in demographic decline.



Regardless of the performance of natural resource and tourism sectors, the projected demographic decline will lead to a shift in the relative importance of different service sectors with services for older citizens growing in demand and services for youth experiencing weak growth at best.

Natural Resource Dependency

- The main sectors supporting economic growth in the province have been based on natural resource extraction (and more recently outdoor tourism), even though more people are employed in nontradable sectors, like retail.
- Because employment in each region of the province rests on this (fairly narrow) base of tradable activities, natural resource shocks can cause employment in nontradables to fall whenever local income from the resource sector collapses.
- Oil royalties remain a key part of provincial government revenue. However, while the oil industry is very capital intensive, it provides limited direct employment for local workers.
- The more the influence of the energy sector increases, along with the global shift to a low-carbon economy, the more the provincial budget becomes susceptible to shocks from fluctuating oil prices and drops in demand.

Future Scenarios



Although the evolution of the future economy cannot be fully predicted, the Harris Centre's Regional Analytics Laboratory (RAnLab) modeled two regionalized scenarios based on different assumptions about how workers may respond to different employment incentives, while holding constant changes in economic structure. Note: These models use 5 regions: Labrador, the Avalon Peninsula, the West Coast, Central Newfoundland, and the South Coast.

Scenario 1

Scenario 1 assumes that the same share of potential workers will stay out of the labour force through 2035, as is currently the case, and that unemployment rates in each region will remain at current levels.

- The Avalon region is largely stable with a slight increase in both labour force and employment;
- Labrador has about a 13% decrease in its labour force by 2035 with a similar reduction in employment;
- Both the West Coast and Central regions have about a 15% decrease in labour force and employment by 2025 and a 30% decrease by 2035, and
- The South Coast has a 25% decrease in 2025 and 50% decrease from 2016 levels by 2035 for both its labour force and employment.

Scenario 2

Scenario 2 assumes that the province achieves the 2016 Canadian average level for both labour force participation rates, and unemployment rates.

- The Avalon region has a 5% increase in labour force and an 8% increase in employment
- Labrador has a 9% decrease in its labour force by 2035, while employment increases by about 6% in 2025 and falls just over 1% from 2016 levels in 2035.
- Both the West Coast and Central regions have about a 20% decrease in labour force by 2035, and higher employment than in 2016
- The South Coast has a decrease in both labour force and employment numbers of about 12% by 2025 and 25% by 2035.

Challenges



NL will be faced with twin challenges:

Economic Restructuring

Some regions will face larger decline than others, which suggests that they will have a harder time maintaining current levels of economic activity.

Rapidly Shrinking Labour Force

A shrinking workforce will make it difficult for the province to maintain the current level of economic activity.

- Demographic decline has clear implications for the labour force and for the demand for specific types of public services. In particular there will be less demand for schools as the share of children below working age in the population declines, and more demand for support for seniors as the share of people in the population above retirement age increases.
- Many municipalities are already too small to support an independent local economy or provide basic services that their populations need; this problem will worsen with demographic decline and a considerable number of municipalities in the province may choose to dissolve their local government as conditions worsen.

Smart Specialization Strategies (S3)

Incremental Innovation

The S3 approach focuses on incremental innovation that extends existing core strengths and adds complementary activities. This approach can make existing strengths stronger by applying appropriate technology.

Competitive Advantages

An S3 approach contrasts with a simple notion of diversification, which argues that adding any new activity to an economy reduces risk. S3 instead advocates that innovations to existing or emerging competitive advantages offers both risk reduction and better opportunities for growth.

Innovations in NL Traditional Resource Industries

In the context of NL, a focus on increasing innovations in traditional resource industries offers potential benefits of reduced cost of processing and product quality improvements. Similarly, short-term investment in oil and gas, along with immediate and longer-term investment in clean technology may be a way to bridge into and strengthen NLs clean energy sector.

What Can We Do?



1 More Productive Labour Force

The labour force in future years will be smaller, but it can be utilized more effectively. While it may be possible to attract additional workers to the province, an approach that offers considerable benefits would be to increase the ration of employed people in the existing labour force by reducing unemployment rates and increasing the labour force participation rate to the Canadian average. One approach could be to develop better employee matching procedures.



2 Skill Development and Investment

The shift in demographics will mean a shift in services required (for example more elder care and less elementary schools). As more people work to support seniors, a considerable number of these workers will require specialized skills which suggests a need for investments in training programs for elderly care. In addition, investment in new technologies is required to make firms in the province more competitive.

3 Region-Specific Restructuring

Different regions of the province will face distinct opportunities and challenges that must be addressed with region-specific approaches in order to attain economic prosperity. For example, a larger share of the provincial budget will have to go to the elderly and this may require a reconfiguration of both healthcare districts and school districts. However, because the demographic shifts will impact each region differently, a province-wide approach without a regional-specific lens will be insufficient.

A Regional Approach



CHANGING DEMOGRAPHICS

NL currently has two levels of government: Provincial and settlements incorporated as municipalities. This results in a larger provincial government than other provinces because many local governments are too weak to be an effective partner with the provincial government, so provincial employees play a large role in delivering local public services.

SPATIAL DIFFERENCES

A regional approach can be desirable for NL because the province is geographically large, sparsely settled, has a limited transportation network, and diverse regional economic opportunities; all of which suggest a spatially differentiated approach to policy may be better than applying a single province-wide set of policies.

LOCAL CAPACITY

In the current situation, weak municipal governments lack the capacity, the resources, and incentives to identify and act upon local opportunities that cannot be identified from St. John's



LOCAL LABOUR MARKETS

While a regional approach in managing demographic decline is essential to maximize opportunities for economic growth, in the short-term it is vital if local labour markets distributed across the province are to adjust in ways that can increase the share of the working age population that is employed on a full-time basis to allow time for investments that will increase productivity and reduce underemployment.