



# THE ECONOMIC STATE OF LONDON

A LOOK BACK SINCE THE DAWN OF THE 21ST CENTURY

AMIR FARAHI - OCTOBER 2015



LONDON INSTITUTE FOR PUBLIC POLICY

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WRITTEN BY

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## SUMMARY

This report was conducted by the London Institute for Public Policy to determine the economic performance of London, Ontario, Canada following the Great Recession of 2008. The research required comparing the growth of London's labour force and job sectors prior, during and after the recession, and determining whether the growth occurred in part-time or full-time jobs. Annual data was collected for the London Economic Region from Statistics Canada for the period between 2001 and 2015.

The findings in the report show that London has seen a shrinkage in its labour force in the past fifteen years. Significant factors include the aging of the population, young people staying in school longer, and the amount of the working-age population on social assistance. From 2007 to 2013 the number of people on social assistance increased by 29%. The 25-44 age group population decreased by 11,500 people between 2002 and 2014. As well, there has been a notable increase in the 25-44 working age group from 2011 onwards, suggesting that London has been retaining and/or attracting talent in the last 4 years. With the city's working population becoming progressively older and the labour force becoming progressively smaller, London is left with fewer people paying taxes and more people in need of government services.

In addition, the data in the report shows that there has been a small amount of job recovery in London with a 2.36% net increase over 2009 levels following the Great Recession. However, this still lags behind the pre-recession high, set in 2007, by 12,000 jobs. The recession resulted in a decrease in the employment rate by about 5%, and an increase in the unemployment rate by 4%. Since 2009, both the unemployment and employment rates have decreased with the unemployment rate going back down to pre-recession levels, while the employment rate has reached its lowest in 14 years.

## SUMMARY – CONTINUED

Business growth in London has particularly been driven by small businesses and the self-employed over the last five years. Between 2009 and 2015, the agriculture, business support services, and professional, scientific, and technical services sectors saw greater than 10% job growth. The manufacturing sector shows stable employment numbers post-recession, but the cyclical trend suggests a turbulent and perhaps transformative period for the sector.

Much like the employment numbers, the report found that full-time jobs took a large hit during the recession that have not yet recovered, while part-time jobs show a positive yet variable overall trend. Since the recession, approximately 10,000 full-time jobs have been created while the number of part-time jobs has remained approximately constant. Normalized for the labour force size, the data confirms that many of the post-recession jobs created were full-time positions with particular gains after 2013. The percentage of the labour force in full-time positions is approaching pre-recession levels while the percentage of the labour force that is unemployed is at the pre-recession level.

# 1 PURPOSE

The purpose of this report is to answer the following questions about the city of London during the period from 2001 to present:

- ❖ How well has London's economy performed, following the Great Recession of 2008?
- ❖ How has London's labour force changed since the dawn of the 21st century?
- ❖ What job sectors experienced the most growth following the Great Recession, and how do these compare to pre-recession levels?
- ❖ Were post-recession job creation mainly part-time or full-time positions?

# 2 DATA

Annual data on labour statistics for the London Economic Region (Elgin, Middlesex, and Oxford counties) were collected from Statistics Canada for the period between 2001 and 2014. Monthly data for 2015 year-to-date were collected and averaged to give a comparable number to the previous years.

## 3 ANALYSIS

### 3.1 LABOUR FORCE GROWTH

Labour market data is an important indicator of the regional economic picture. How the labour force evolves in the coming years is important, especially in the context of recovery following the Great Recession of 2008. However, projecting the labour force is a complex endeavour, as a number of factors must be considered. One of the most important is the aging of the population, as the proportion of working persons aged 55 or over has increased rapidly in the past few years.

Demographic projections made by Statistics Canada have shown that the aging of the population has been accelerating since 2011 as the baby boom cohorts age, resulting in a steady increase in retirements. This increase is also expected to slow, but will still not be sufficient to offset the many retirements and therefore shrinkage in the labour force that will occur between now and 2031.

As a result, the overall participation rate in the labour force is expected to decline significantly, along with the ratio of the labour force to non-working seniors. The gradual movement of the baby boom cohorts into retirement, and their replacement by much smaller cohorts, explain most of these outcomes. Neither a rise in immigration, an increase in fertility, nor higher education levels significantly alter these trends. As well, a continuing rise of the participation rate among seniors could lessen or even delay the drop in the overall participation rate. After 2031, all the baby boomers will have reached age 65, and the pace of retirements should therefore drop considerably.

### 3.1 LABOUR FORCE GROWTH – CONTINUED

London has seen a shrinkage in its labour force recently. Why is this happening?

A number of significant factors help explain this phenomenon. One – older Londoners are retiring, younger Londoners are staying longer in school, and many workers have been discouraged by factors attributed to globalization. Two – globalization has brought the level of competition to a point where less people are being employed domestically. And three – automation has provided various industries the ability to reduce cost on wages paid to staff, and also on labour taxes paid to the government; these have given companies a boost in labour productivity and competitiveness.

Nonetheless, demographics have always played a big role in the rise and fall of the labour force in London. Since 2000, the labour force has been steadily declining as the baby-boom generation has been retiring. This decline is also due to the younger demographic now typically staying longer in school. Although the former point is an inevitable outcome, the latter is not necessarily a bad sign. The fraction of 15 to 24-year-old Londoners pursuing an education has been growing over time. This could mean a more skilled labour force in future years, though this would also mean more young Londoners with burdensome student debt. A cyclical pickup in the participation rate may occur when job opportunities increase and wages become more attractive.

### 3.1 LABOUR FORCE GROWTH – CONTINUED

Since the end of the Great Recession there has been a small amount of job recovery in the city, with a 2.36% net increase over 2009 levels. However, this still lags behind the pre-recession high by 12,000 jobs set in 2007 – see **Figure 1**.

**Figure 1:** Changes in London’s employment numbers over the last 15 years.

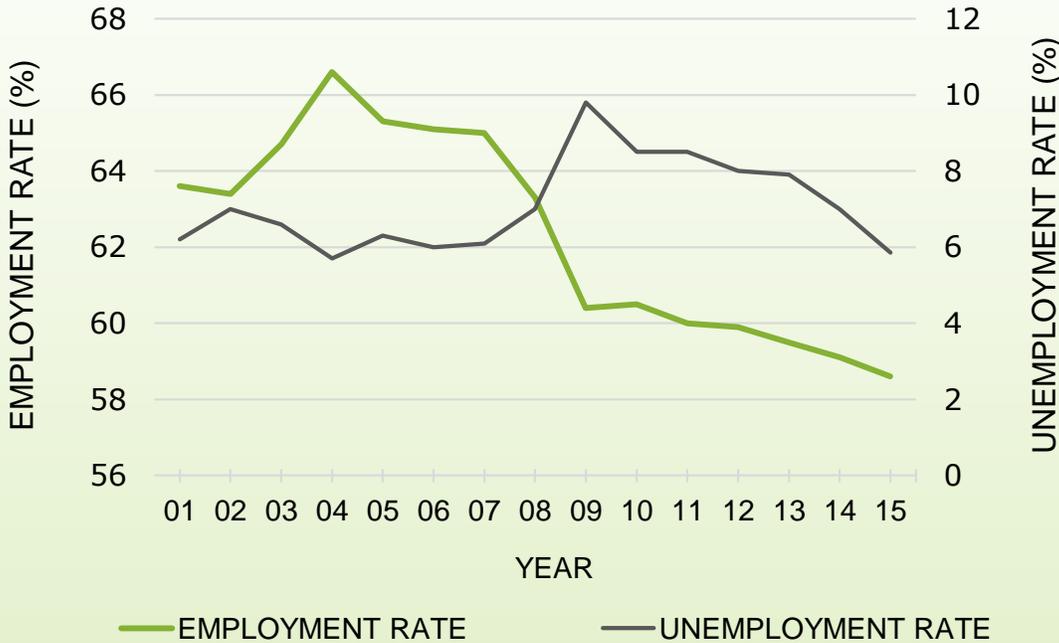


Data Source: CANSIM tables 282-0122 and 282-0123

### 3.1 LABOUR FORCE GROWTH – CONTINUED

Moreover, the 2.36% net increase may be in part due to a cyclical bounce-back from the recession. Employment and unemployment rates may be better metrics to gauge job recovery as they are normalized to working-age population. **Figure 2** shows that the recession resulted in a decrease in the employment rate by about 5% and an increase in the unemployment rate by 4%. Since 2009, both the unemployment and employment rates have decreased with the unemployment rate going back down to pre-recession levels, while the employment rate has reached its lowest in (at least) the last 14 years.

**Figure 2:** Changes in employment and unemployment rates over the last 15 years

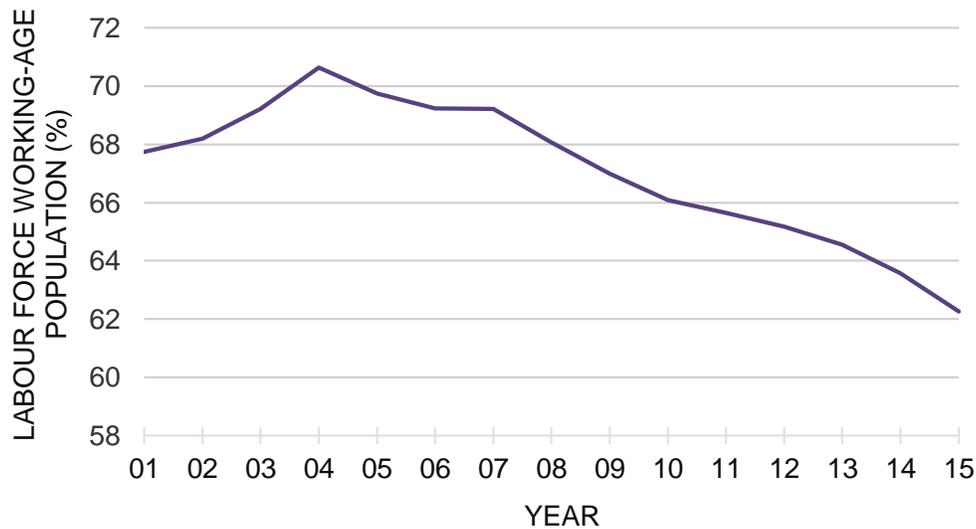


Data source: CANSIM tables 282-0122 and 282-0123.

### 3.1 LABOUR FORCE GROWTH – CONTINUED

This unprecedented decrease in the employment rate of London is because the percentage of the working-age population still in the labour force has been decreasing since the start of the recession – see **Figure 3**. Total employment in the London region is expected to rise 0.8 percent in 2015 and 1.1 percent in 2016. This compares to a 0.4 percent decline in 2014. Employment is expected to remain below the pre-recession high through 2016. The unemployment rate will decline despite modest employment growth, because labour force growth will stall. The region’s unemployment rate is projected to decline from 9.8 percent in 2009 to 6.0 percent in 2015, and fall further to 5.4 percent in 2016.

**Figure 3:** Change in labour force population relative to working-age population.

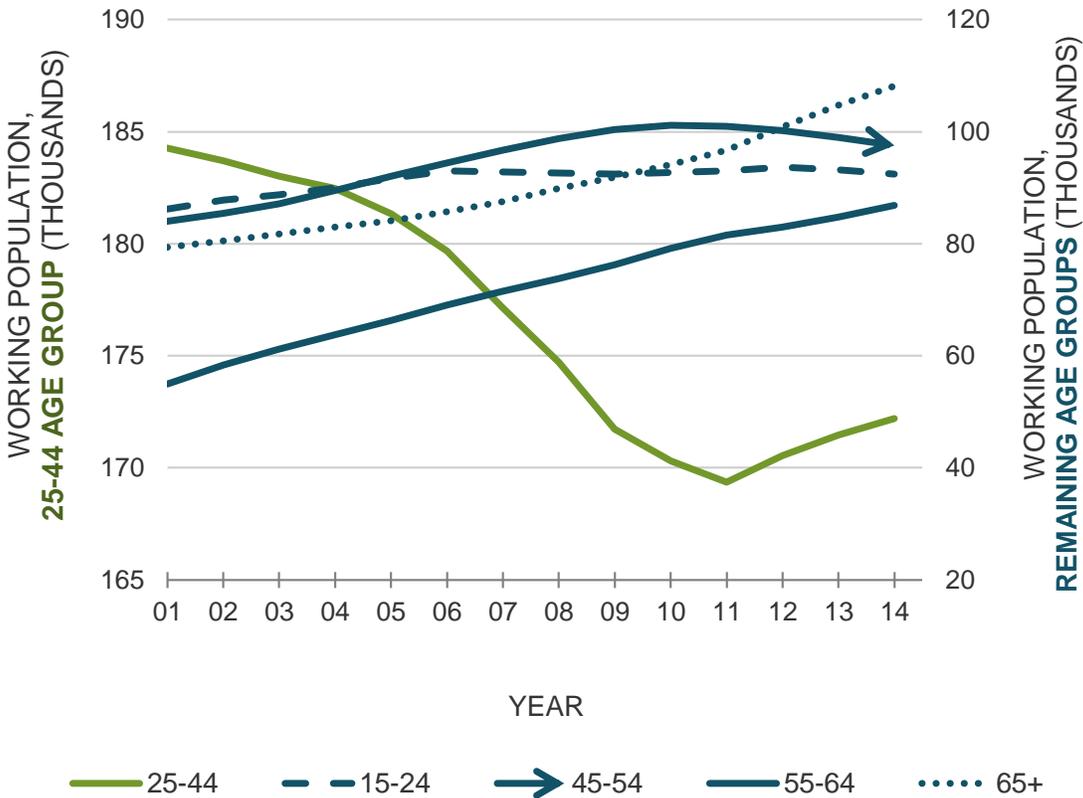


Data Source: CANSIM tables 282-0122 and 282-0123.

### 3.1 LABOUR FORCE GROWTH – CONTINUED

Further exploration shows that the population of the 25-44 age group in London has decreased by 11,500 people between 2002 and 2014, while the population of the 55-64 and 65+ age groups have increased by 28,500 and 27,700 people, respectively – see **Figure 4**. Note that there has been a notable increase in the 25-44 working age group from 2011 onwards, suggesting that London has been retaining and/or attracting talent in the last 4 to 5 years.

**Figure 4:** Change in working-age population based on age groups.



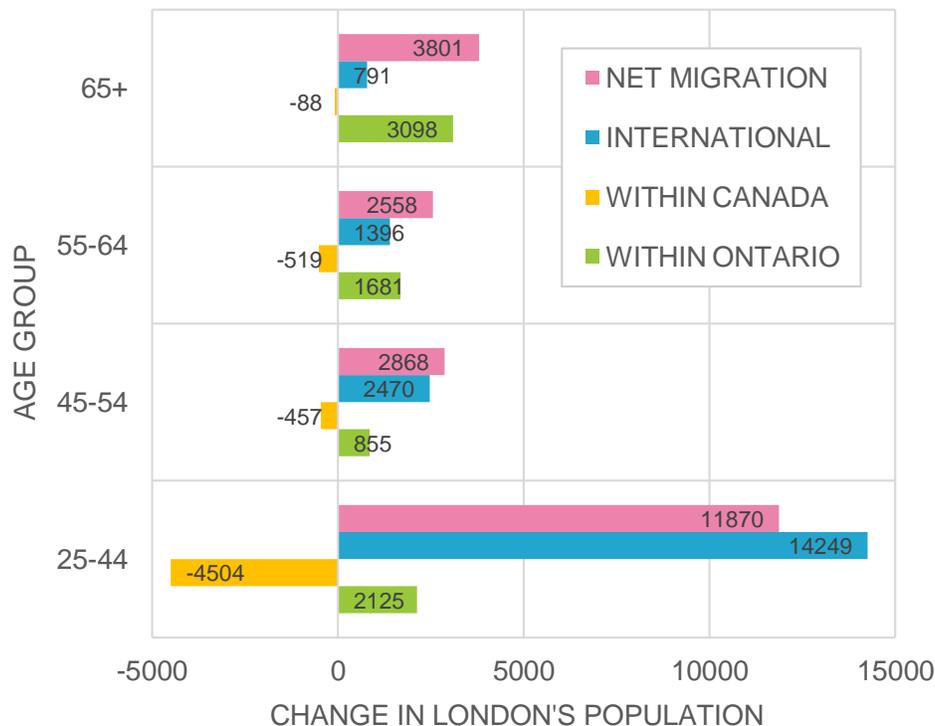
Data Source: CANSIM Table 051-0059.

### 3.1 LABOUR FORCE GROWTH – CONTINUED

Migration data does not explain the disproportionate changes in working-age population. But it does show that, relative to the general increase of all the working age categories, the 25-44 age group has experienced the largest increase by far – see **Figure 5**.

Despite the influx of workers from outside London, the city still maintained a net working-age population deficit. In other words, the age dependency ratio is increasing and the labour force is not being replaced by the 15-24 year group. With the city’s working population becoming progressively older and the labour force becoming progressively smaller, London is left with fewer people paying taxes and more people in need of government services.

**Figure 5:** Net changes in London’s population of various age groups due to migration types between 2002-2014.

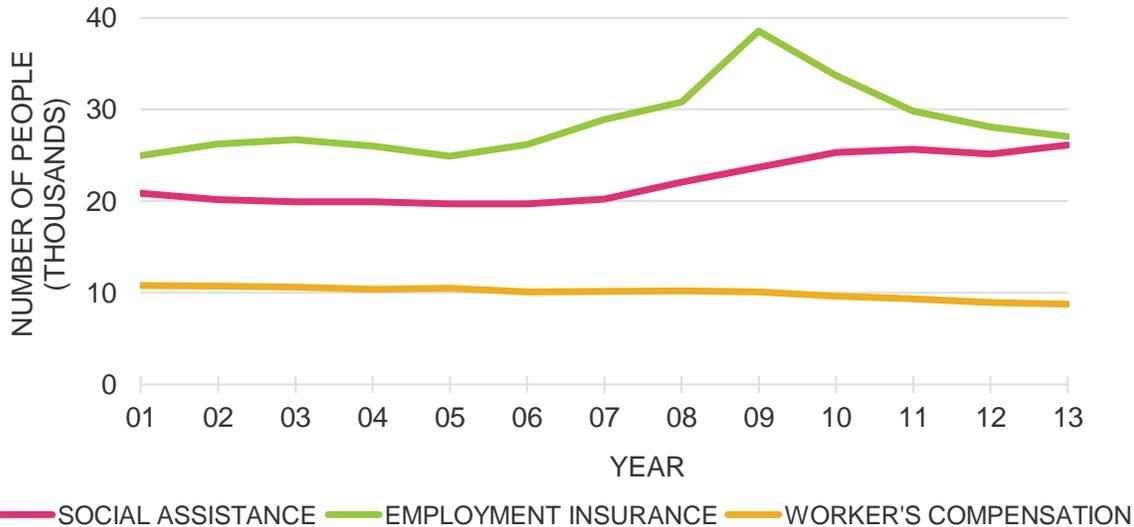


Data source: CANSIM Table 051-0060.

### 3.1 LABOUR FORCE GROWTH – CONTINUED

Another factor influencing the labour force is the size of the working-age population on government assistance (e.g. social assistance, worker’s compensation, employment insurance). **Figure 6** shows that, prior to the recession, the numbers of people using government assistance programs were fairly consistent. However, during the recession, these numbers rose for social assistance, and particularly employment insurance. Following the recession, the number on employment insurance went back down to pre-recession levels while the number on social assistance remained at a constant value. Furthermore, from 2007 to 2013, the number of people on social assistance increased by 29%, compared to a 2% decrease and 5% increase for the labour force and working-age population, respectively, for the same time period. This suggests that the decline of the labour force is partly due to people being on social assistance.

**Figure 6:** Change in population on government assistance.



Data Source: CANSIM Table 111-0025.

## 3.2 JOB SECTOR GROWTH

Business growth in London has been driven by small businesses (one to four employees) and the self-employed over the last five years. The two groups continue to make up the majority of the city's business base, and grew at comparatively higher rates than their larger counterparts from 2008 to 2014. In addition, the city maintains a base of large businesses (100+ employees) in sectors like healthcare, manufacturing, and transportation and warehousing. Sectors that saw the greatest growth between 2009 and 2015 are agriculture, business support services, and professional, scientific, and technical services, all of which saw greater than 10% job growth – see **Table 1**. These sectors make up about 20% of the city's labour market.

**Table 1:** Relative post-recession employment changes by industry sector between 2009 and 2015.

| INDUSTRY SECTOR                              | % CHANGE<br>2009 - 2015 | % TOTAL LABOUR<br>FORCE (RANK) |
|--|-------------------------|--------------------------------|
| Agriculture                                  | 34.83%                  | 3.71% (12)                     |
| Business, building, other support services   | 19.72%                  | 5.25% (9)                      |
| Professional, scientific, technical services | 10.51%                  | 5.29% (8)                      |
| Construction                                 | 9.77%                   | 7.19% (5)                      |
| Educational services                         | 9.46%                   | 7.91% (4)                      |
| Public administration                        | 8.40%                   | 3.98% (11)                     |
| Manufacturing                                | 6.14%                   | 14.42% (2)                     |
| Finance, insurance, real estate, leasing     | 4.87%                   | 7.13% (6)                      |
| Accommodation, food services                 | 3.72%                   | 6.28% (7)                      |
| Transportation, warehousing                  | 0.86%                   | 4.64% (10)                     |
| Trade  | -3.08%                  | 14.58% (1)                     |
| Healthcare, social assistance                | -6.03%                  | 12.86% (3)                     |
| Information, culture, recreation             | -15.80%                 | 2.94% (14)                     |
| Other services                               | -18.76%                 | 3.29% (13)                     |
| Utilities                                    | -34.72%                 | 0.48% (15)                     |

Data source: CANSIM tables 282-0124 and 282-0125.

## 3.2 JOB SECTOR GROWTH – CONTINUED

There has been growing demand for computer programmers, interactive media developers, web designers, developers, computer, information systems managers, computer network technicians and software engineers in the labour markets. This suggests that employment growth trends in the London region will be in information communication technology, life sciences, advanced manufacturing, agriculture and digital creative sectors.

Agriculture is one of the top primary export industries in the London region. The growth trend of this industry suggests that there is a continuous effort to improve productivity, to gain economic efficiency, and to remain internationally competitive. Due to the nature of its products (food), the agriculture and agri-food markets were responding more rigidly to fluctuations in prices. This played as an advantage during the most recent years

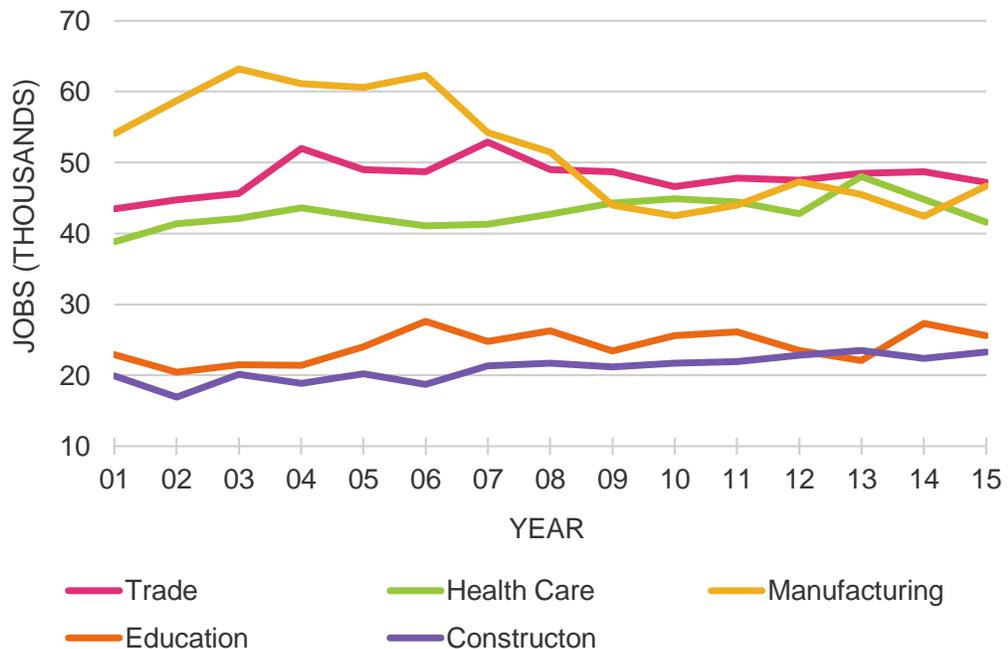
when the recession affected the economy because its downturn has been much smaller than for other industries.

Nevertheless, much of the improvements in the productivity of the agricultural industry are significantly attributed to the increased level of mechanization, the intensity of intermediate input use, and application of research and technology. The future growth of this sector in the London region will also come from population growth, expanding on new markets through export activity (the EU, China, Korea, India and Japan), finding efficiencies within the distribution and through value-added technologies, and expected rise in prices for food products and services. The Canada-EU trade agreement and possibly the Trans-Pacific Partnership will come into effect soon, presenting opportunities and challenges to this industry.

### 3.2 JOB SECTOR GROWTH – CONTINUED

Manufacturing, one of the city’s top three sectors, shows stable employment numbers and perhaps even a modest growth during the post-recession time period. This is largely overshadowed by its significant job loss immediately preceding and during the recession, a loss from which it has yet to recover – see **Figure 7**. The London region’s manufacturing sector employed about 44,000 people in 2011, but has experienced a net decline in employment of 31% since 2006. Although employment in the manufacturing sector is experiencing a cyclical trend, this does not speak of the overall growth of the sector.

**Figure 7:** Total number of jobs in the five largest sectors.



Data source: CANSIM tables 282-0124 and 282-0125.

## 3.2 JOB SECTOR GROWTH – CONTINUED

There are many reasons for the decline of employment in the manufacturing sector during the recession. Aside from globalization, the continued implementation of industrial automation and adoption of new technologies have increased the productivity per worker of much of the manufacturing sector. This has allowed manufacturers to remain competitive, though this also caused fewer people to be employed. Interestingly, the manufacturing sector accounted for approximately 11% of hiring demand in 2014, suggesting resiliency in some key sectors like defence and food, likely in the replacement of workers in the older age groups. The outlook for the region's key manufacturing industry became brighter when General Dynamics Land Systems Canada won a \$10 billion contract to build armoured defence vehicles for export in 2014. This work will be spread over many years, keeping plant workers and subcontractors busy. External conditions, such as the growth in US markets, a depreciated Canadian dollar, and lower oil prices have set the stage on a temporary basis for more manufacturing exports in the region.

### 3.2 JOB SECTOR GROWTH – CONTINUED

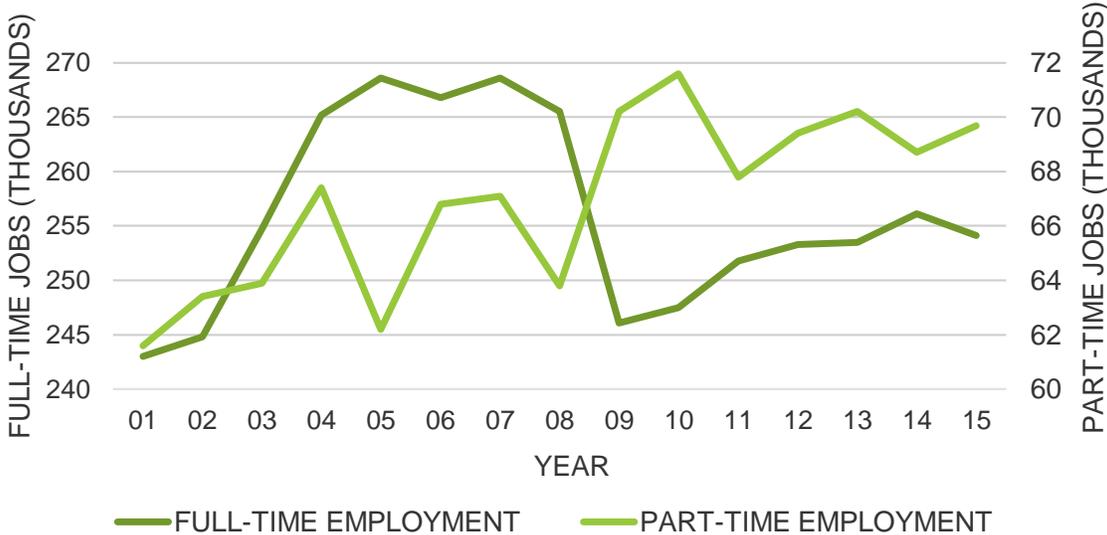
Perhaps the most significant result is the comparatively high job gains in the construction and educational sectors, which form the fourth and fifth largest sectors in London, respectively. Neither of these sectors were affected by the recession as both show statistically significant increases in job numbers since 2001, shown in **Figure 7**. Much of the recent hiring demand has been driven by the city's largest employers, with Western University, London Health Sciences Centre, St. Joseph's Health Care, and Service Canada generating 9% of total job postings across the city in 2014. Labour force, employment, and business trends point to an economy that is continuing its transition away from traditional sources of economic development. Institutional sectors, particularly in the city's health and education sectors, are becoming a key source for all types of employment in the city, and are expected to continue playing this role in the future. However, the city's historic sources of business activity and employment growth persist in spite of this shift, with high-skill and technology-based subsectors replacing more traditional labour-intensive or low-skill activities.

Despite the apparent negative and positive growth values presented in **Table 1**, consideration of the inter-annual variability in job numbers within the post-recession time period shows that many sectors have been, on average, fairly constant and show no preferential trend.

### 3.3 PART-TIME AND FULL-TIME JOB GROWTH

Much like the employment numbers from **Figure 1**, full-time jobs took a large hit during the recession that have not yet recovered while part-time jobs show a positive, yet variable, overall trend. **Figure 8** shows the trends in full-time and part-time job numbers. Since the recession, approximately 10,000 full-time jobs have been created, while the number of part-time jobs has remained approximately constant. Normalized for the labour force size, the data confirms that many of the post-recession jobs created were full-time positions with particular gains after 2013.

**Figure 8:** Change in full-time and part-time jobs.

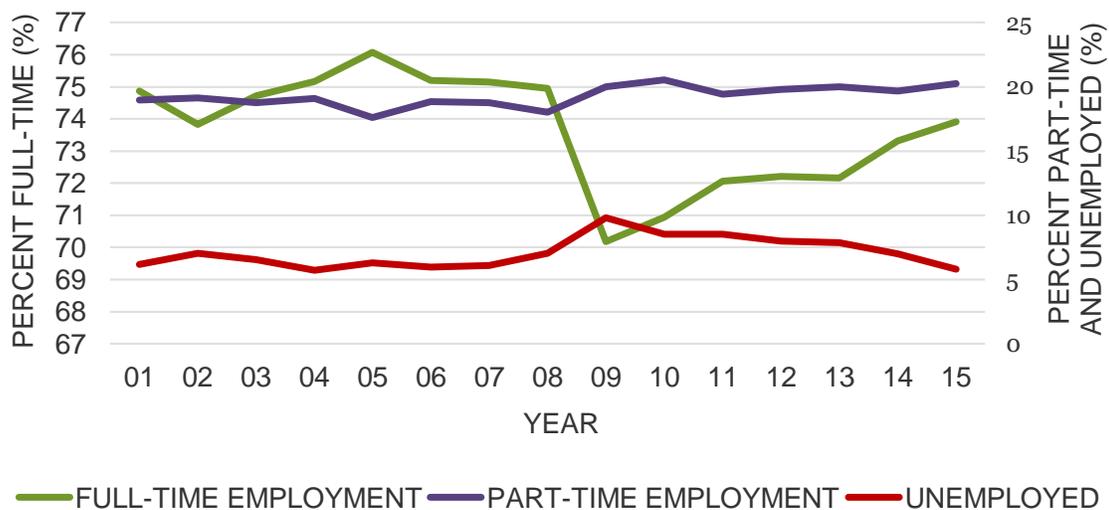


Data Source: CANSIM tables 282-0122 and 282-0123.

### 3.3 PART-TIME AND FULL-TIME JOB GROWTH – CONTINUED

The percentage of part-time jobs remains stable yet slightly above its pre-recession levels. **Figure 9** shows that, when normalized with the labour force population, the percentage of the labour force in full-time positions is approaching pre-recession levels while the percentage of the labour force that is unemployed is generally at the pre-recession level. These values are different from the employment and unemployment rates presented in **Figure 2** because they only consider the labour force population, as opposed to the working-age population used to calculate employment and unemployment rates.

**Figure 9:** Relative changes in full-time, part-time, and unemployed numbers.



Data source: CANSIM tables 282-0122 and 282-0123.

## 4 CONCLUSIONS

The city has yet to fully recover from the recession in terms of job numbers, though the recent increase in full-time jobs, both in number and proportion, is encouraging.

The city's labour force remains below pre-recession levels and the city has gained a disproportionate number of retirees and people on social assistance. As a corrective action, the retaining and attracting of younger workers will be a proactive choice in accelerating the already increasing 25-44 working age group.

The manufacturing sector was disproportionately hit during the recession and has yet to recover. On the other hand, employment numbers have stabilized since the recession.

Many of the city's other major and minor industries were not as affected by the recession and have exhibited a constant or slightly increasing trend.

Since the end of the recession, the industries that have experienced the largest gains have been smaller sectors, though no single sector stands out.

The post-recession increase in jobs has been mainly a result of full-time job creation. Despite having a smaller labour force than pre-recession levels (both in terms of absolute and relative numbers), the proportion of full-time jobs is approaching pre-recession levels.

Perhaps if these overall employment trends remain or improve, London may be at or above pre-recession employment levels within 6 years.

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