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Supplementary Measures of Unemployment in Canada

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(In Brief)

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SUPPLEMENTARY MEASURES OF UNEMPLOYMENT IN CANADA

1 INTRODUCTION

Each month, policy-makers carefully track changes in the unemployment rate, which is considered a key indicator of economic conditions in Canada. The official unemployment rate is the number of unemployed as a percentage of the total labour force, which includes both employed and unemployed people.

However, some analysts believe that focusing solely on the official unemployment rate may not paint an accurate picture of the labour market. That is because the unemployment rate does not capture all types of slack in the labour force.

For example, calculations of the official unemployment rate make no provision for part-time workers who would prefer full-time jobs. As well, a number of potential workers may have given up looking for employment because they believe that no jobs are available. These discouraged searchers are not included in the official counts of the unemployed because they have not been actively seeking jobs.

As a result, supplementary measures to the official unemployment rate that focus on long-term unemployment have been developed. This paper outlines these supplementary measures, showing how some facets of unemployment adjust at different rates during an economic downturn.

2 THE OFFICIAL UNEMPLOYMENT RATE AND SUPPLEMENTARY UNEMPLOYMENT RATES

During one week of each month, Statistics Canada's Labour Force Survey collects data to calculate Canada's official unemployment rate, the number of unemployed as a percentage of the total labour force.

An unemployed person is someone who, during the survey's reference week, was without work, had actively looked for work in the past four weeks, and was available for work.

The Labour Force Survey also calculates eight supplementary measures of unemployment, based on data it has collected. These measures are labelled R1 to R8, as outlined in Table 1. It should be noted that these data are not seasonally adjusted.

Table 1 – Supplementary Unemployment Rates in Canada

Supplementary Measures of Unemployment	December 2008	December 2012	Percentage Point Change
R1: Unemployed one year or more	0.4%	0.9%	0.5
R2: Unemployed three months or more	1.7%	2.5%	0.8
R3: Comparable to the United States rate	5.6%	5.7%	0.1
R4: Official rate	6.3%	6.5%	0.2
R5: R4 plus discouraged searchers	6.5%	6.7%	0.2
R6: R4 plus those waiting for job confirmation	7.0%	7.2%	0.2
R7: R4 plus involuntary part-timers	8.4%	8.8%	0.4
R8: R4 plus R5 plus R6 plus a portion of R7	9.0%	9.4%	0.4

Source: Table prepared by the author using data obtained from Statistics Canada, "[Table 282-0085, Labour force survey estimates \(LFS\), supplementary unemployment rates by sex and age group, unadjusted for seasonality, monthly \(rate\)](#)," CANSIM (database).

The official unemployment rate is designated as R4. In December 2012, the Canadian labour force stood at 18.8 million people and the official unadjusted unemployment rate was 6.5%.¹ This compares with 6.3% in December 2008 when the labour force was 18.3 million.

While the December 2012 official unemployment rate had nearly returned to the level at which it sat at the outset of the 2008 recession, this was not the case for other supplementary measures of unemployment.

3 LONG-TERM UNEMPLOYMENT

Long-term unemployment can reduce an individual's capacity to find a job.² The rates R1 and R2 shown in Table 1 are indicative of a difficult economic period and its impact on the labour force.

Many workers who lost their jobs after December 2008 had not yet reintegrated into the job market by December 2012. During this four-year period, the proportion of people who were unemployed for one year or longer more than doubled from 0.4% to 0.9%. The proportion unemployed for three months or more rose from 1.7% to 2.5%.

4 NON-PARTICIPANTS AND HIDDEN UNEMPLOYMENT

Some supplementary unemployment rates combine the unemployed with groups outside the labour force that indicate some attachment to the labour market.

R5 refers to "discouraged searchers," people who want to work and are available to take work, but who do not look for a job because they believe no jobs are available. R6 refers to people who are available for work and are waiting to hear from a potential employer. Neither group is included in the official unemployment rate because the people in these groups have not been actively looking for a job.

If discouraged searchers were included in the official unemployment rate, the rate would have been 6.7% in December 2012 instead of 6.5%. If individuals waiting for a job had been included, the unemployment rate would have been 7.2% in December 2012. These two rates always tend to be a little higher than the official unemployment rate.

The rate R7 covers workers who have reintegrated into the job market after the recession, but feel that their working hours are insufficient. Had involuntary part-timers been included in the official unemployment rate in December 2012, the rate would have been 8.8% instead of 6.5%.

5 TOTAL UNDERUTILIZATION

R8 is referred to as the overall underutilization rate. It is the highest unemployment rate of all the supplementary measures of unemployment and is derived by adding R5, R6 and a portion of R7 to R4.

The unemployment rate including underutilization has not yet quite returned to the levels that existed at the outset of the recession. As of December 2012, the underutilization rate was 9.4%, compared with 9.0% in December 2008.

6 INTERNATIONAL UNEMPLOYMENT INDICATORS

Most countries, including Canada and the United States, follow guidelines established by the International Labour Office (ILO) for measuring unemployment. However, as Statistics Canada reports, the guidelines are loose. Individual countries can interpret them within the context of their own labour markets, which can be governed by more or less rigid labour laws.³ As a result, unemployment rates are not comparable across all countries.

Statistics Canada has explored the differences in measurement between the American and Canadian unemployment rates and produces a rate called the R3, which is defined similarly to the U.S. unemployment rate. Adjusting the Canadian rate to the U.S. equivalent lowers it by about one percentage point.

European Union (EU) countries are also said to follow ILO guidelines. However, some adjustments have to be made to yield data that conform with the ILO guidelines and that are comparable with the Canadian unemployment rate.

The Statistical Office of the European Communities calculates the harmonized unemployment rates for EU countries, Iceland, Norway and Turkey. These rates provide a better basis for international comparison than the national figures on unemployment.

In the case of Canada, the United States, Australia, Japan, Korea, New Zealand and Switzerland, the Organisation for Economic Co-operation and Development (OECD) collects data directly from national statistical offices. These data are used to produce unemployment figures according to the ILO guidelines. Harmonized unemployment

rates published by the OECD provide a better basis for international comparison than data obtained from each country's national statistical office.

Data can be accessed through the OECD employment database.⁴

7 CONCLUSION

The official unemployment rate is the standard measure of what constitutes unemployment. But other dimensions of the labour market can be explored by analyzing supplementary rates. Data on subpopulations such as involuntary part-timers and discouraged searchers provide a broader understanding of the state of the labour market.

Moreover, the number of those not participating in the labour force can vary considerably with economic conditions. Information on these groups paints a more complete picture of how labour supply and demand adjust to economic events.

Some of the supplementary rates show lower levels of unemployment than the official unemployment rate, while others indicate higher levels. Data shows that since the last recession, long-term unemployment for periods of three months to a year – and longer – is lagging behind the official unemployment rate; it is far from having returned to levels experienced prior to the 2008 recession.

NOTES

1. It should be noted that the unemployment rate can show seasonal, cyclical and irregular movements. As such, a seasonally adjusted unemployment rate is produced by Statistics Canada's seasonal adjustment program. A seasonally adjusted unemployment rate is one from which seasonal movements have been eliminated. Seasonal movements are those caused by regular annual events, cycles related to crops and production, and retail sales associated with holidays.

Supplementary unemployment measures are not seasonally adjusted.

The official unemployment rate reported in Table 1 thus differs from the official seasonally adjusted unemployment rate usually reported by the media. In December 2012, the official adjusted unemployment rate was 7.1%.

2. Olivier Jean Blanchard and Peter Diamond, "Ranking, Unemployment Duration, and Wages," *The Review of Economic Studies*, Vol. 61, No. 3, July 1994; and Richard Jackman and Richard Layard, "Does Long-term Unemployment Reduce a Person's Chance of a Job? A Time-series Test," *Economica*, Vol. 58, No. 229, February 1991.
3. Statistics Canada, [Guide to the Labour Force Survey, 2012](#), Catalogue no. 71-543-G, Ottawa, 2012.
4. Organisation for Economic Co-operation and Development, "[Online OECD Employment database](#)," *Employment policies and data*.