

Comparing Government and Private Sector Job Growth in the COVID-19 Era

by Milagros Palacios and Ben Eisen



Summary

- This bulletin decomposes the job creation data from recent years to compare the extent of job creation in the government and private sectors.
- We find that the public (government) sector accounts for a large majority (86.7 percent) of all net new jobs created since the start of the pandemic.
- Meanwhile, there has been almost no net job creation in the private sector (including self-employment). Net jobs increased in the private sector by just 0.4 percent between February 2020 and July 2022 compared to an increase in net jobs of 9.4 percent in the government sector.
- An adjustment for population growth shows that the share of adults above the age of 15 employed in the private sector has fallen from 49.3 percent to 48.2 percent during this period.
- It is clear that the government sector is disproportionately driving Canada's labour market recovery. Private sector total employment is now only slightly above pre-pandemic levels and once an adjustment is made for population growth, private sector employment is in fact lower than it was in February 2020.

Introduction

Some of the most commonly used economic indicators suggest that the Canadian labour market has largely recovered from the 2020 COVID-19 pandemic. The country's unemployment rate, for example (the share of individuals seeking jobs but unable to find work), currently sits at a historic low (Statistics Canada, 2022a). Further, total employment has increased during the economic recovery such that the employment rate is now just 0.3 percentage points lower than in 2019.

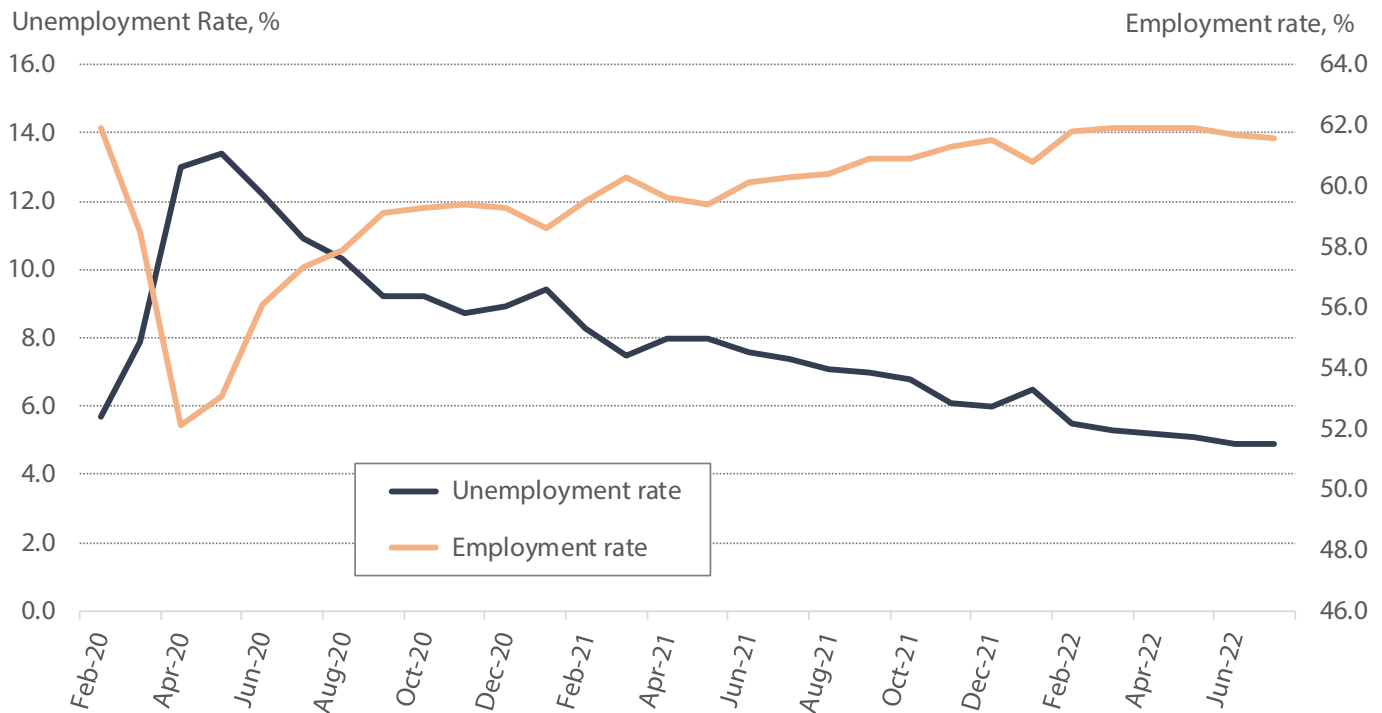
This bulletin decomposes the job creation data from recent years to compare the extent of job creation in the government and private sectors. We find that despite a growing population

there has been minimal private sector job creation even when self-employment is included. Nearly all net job creation from pre-pandemic levels has occurred in the public sector.

Comparing employment recovery in Canada's private and public sectors

In the spring of 2020 with the onset of the COVID-19 pandemic, Canada's labour market suffered a relatively brief but extraordinarily severe shock. Over just two months from February to April 2020 total employment in Canada fell by almost 3 million jobs, representing a contraction of 15.7 percent. The unemployment rate climbed from 5.7 percent to 13 percent during this same two-month period.

Figure 1: Canada's Employment Rate and Unemployment Rate, Seasonally Adjusted, February 2020 to July 2022



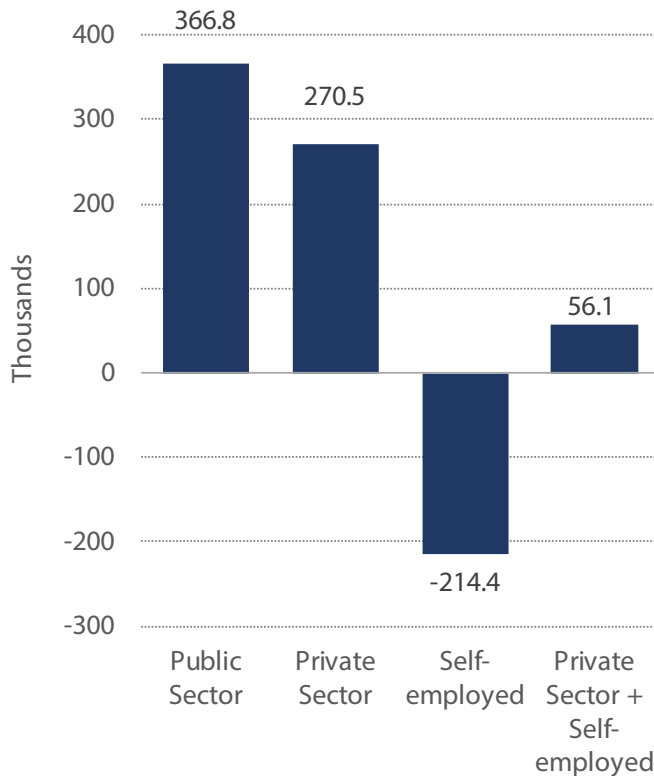
Source: Statistics Canada (2022b).

However, the broadest and most commonly used indicators of labour market performance suggest that Canada’s labour market has recovered from this shock. For the most recent month of data, Canada’s unemployment rate and its employment rate had both fallen back either to or below pre-pandemic levels. Numerous media reports have noted Canada’s low unemployment rate and high aggregate employment levels (Lundy, 2022). Meanwhile, prominent politicians including the prime minister have frequently touted the high aggregate job creation rates across the Canadian economy (Trudeau, 2021, December 6).

Figure 1 shows the change in Canada’s unemployment rate and employment rate from February 2020 to July 2022. The number of employed persons used to calculate the employment rate includes full- and part-time workers.

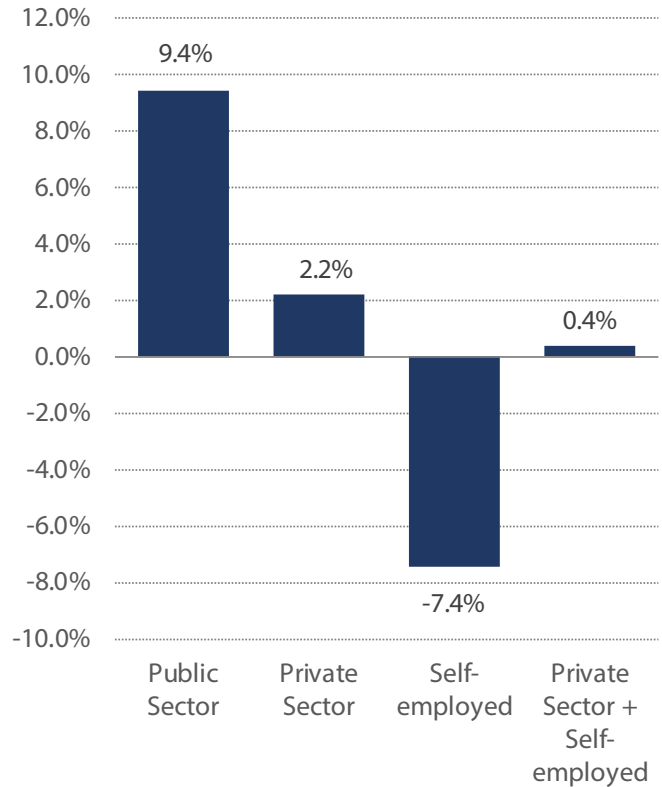
However, we can break these data down further and in doing so have identified a marked difference in the performance of the public and private sectors. Statistics Canada defines the government sector to include government business enterprises and government-funded establishments such as public schools. Between February 2020 and July 2022, total private sec-

Figure 2: Total Job Creation by Sector, Number of Jobs, February 2020 to July 2022



Sources: Statistics Canada (2022c); calculations by authors.

Figure 3: Total Job Creation by Sector, Percentage Change, February 2020 to July 2022



Sources: Statistics Canada (2022c); calculations by authors.

tor employment (including self-employment) in Canada increased by a negligible 56,100 jobs, an increase of approximately 0.4 percent.

By contrast, job creation in the public sector has been robust. Over the same period, government sector employment rose by 366,800 jobs, an increase of 9.4 percent (see figures 2 and 3). These data show that the government sector was responsible for 86.7 percent of job creation between February 2020 and July 2022.

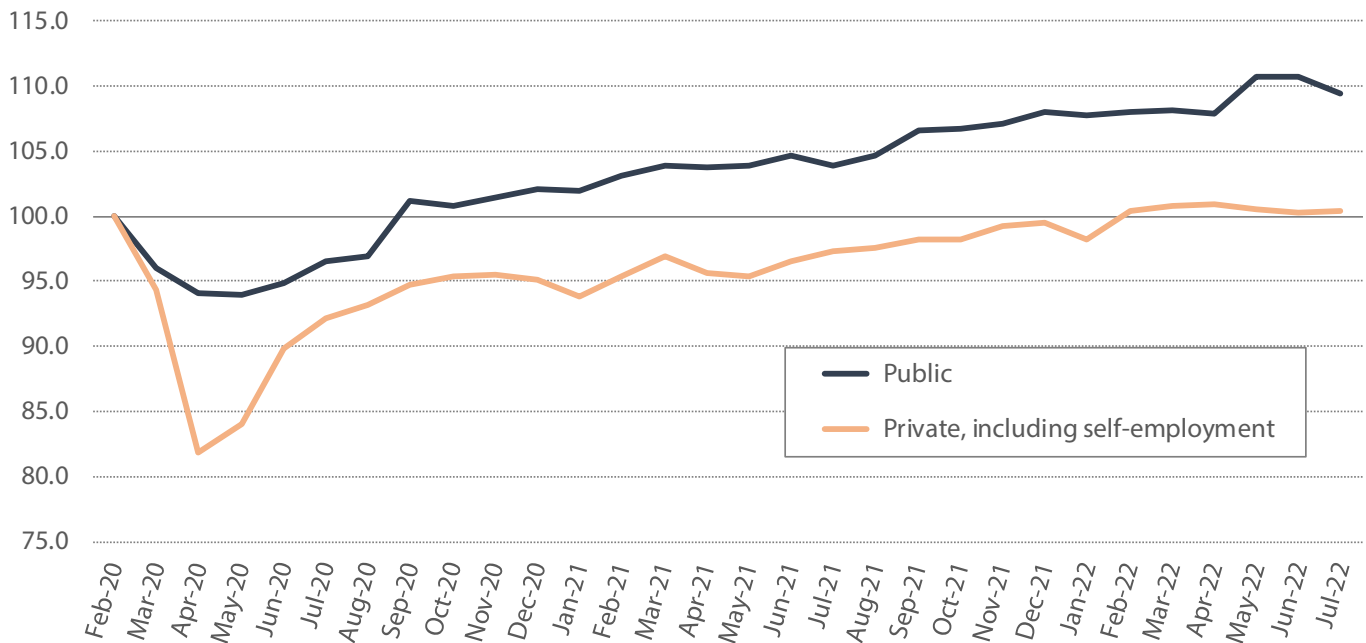
One useful way to visualize the evolution of Canada's labour market since the onset of the pandemic is to compare public and private (including self-employed) employment over time throughout this period, with the data presented as an index where the starting value for each series is set at 100. This produces a more

straightforward picture of the direction of the scale of the change in the two sectors given their desperate sizes, and allows us to see how employment trends have evolved throughout the period rather than looking only at the two endpoints.

Another way to consider the effect of these developments on Canada's labour market is to consider the public sector's share of all jobs in the economy. At the start of the period under analysis (February 2020), public sector jobs represented 20.3 percent of all jobs in the economy. By the most recent month of data, July 2022, this share had increased to 21.8 percent.

To help put these numbers in context, consider that during this same period Canada's population increased. The population over age 15 grew

Figure 4: Public and Private Employment (Including Self-Employment), index=100, February 2020 to July 2022



Sources: Statistics Canada (2022c); calculations by authors.

by 2.7 percent over this time. This means that if near-zero employment growth—such as that which occurred in the private sector (including self-employment)—had taken place across the entire economy, Canada’s employment rate would have fallen over this period of analysis.

The share of the adult population either self-employed or employed in the private sector fell from 49.3 percent in February 2020 to 48.2 percent in July 2022. During the same period, the share of the adult population employed in the government sector increased from 12.6 percent to 13.4 percent. This means that once an adjustment is made for population size, employment in the private sector including self-employed individuals remains meaningfully below pre-recession levels.

Conclusion

Canada’s unemployment rate is historically low, and its aggregate employment level and employment rate have both recovered to pre-recession levels. Media reports and some politicians have frequently cited these statistics to support claims of a robust labour market recovery in Canada.

However, an examination of trends in the public and private sectors of the Canadian economy reveals a more complicated picture. The public (government) sector accounts for a large majority (86.7 percent) of all net new jobs created since the start of the pandemic. This despite the fact that the government sector represents just 21.8 percent of jobs in the economy.

Meanwhile, there has been almost no net job creation in the private sector (including self-employment). Net jobs in the private sector increased by just 0.4 percent between February 2020 and July 2022 compared to an increase in net jobs of 9.4 percent in the government sector.

Once we adjust for population growth over this period (2.7 percent for individuals over the age of 15), Canada’s private sector job performance is even less impressive. The share of adults above the age of 15 employed in the private sector has fallen from 49.3 to 48.2 percent during this time.

These statistics show that Canada’s labour market recovery is being disproportionately driven by the government sector. Total employment in the private sector is now only slightly above pre-pandemic levels and once an adjustment is made for population growth, private sector employment is in fact lower than it was in February 2020.

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