

## ECONOMIC VIEWPOINT

# Some Industries Will Continue to Grapple with Labour Shortages Even as the Economy Slows

By Florence Jean-Jacobs, Principal Economist

### Highlights

- ▶ Quebec and the rest of Canada are sliding into an economic slowdown, which means unemployment will rise and the number of job vacancies will fall until the middle of next year.
- ▶ While the labour shortage will abate for the short and medium term, the issue won't fully resolve due to structural factors mainly related to demographics (namely the aging population).
- ▶ How will this affect the economies of Quebec and the country as a whole? Businesses—especially those in the industries hardest hit by the labour shortage—will have to adapt. They'll need to increase productivity through strategies like automation, robotization, digitalization, business model innovation, inter-company labour sharing and employee upskilling and reskilling.
- ▶ Insufficient investment in these strategies could hobble business competitiveness and force them to relinquish market share to foreign competitors.

### Fewer Job Openings and Higher Unemployment on the Horizon

Quebec and Canada as a whole are entering a period of economic slowdown, which could result in a brief and mild recession in late 2023 and early 2024. We expect the labour market to deteriorate between now and next spring, as the lagging effects of monetary tightening work their way through the economy.

Quebec's unemployment rate is expected to climb from 4.9% in October to roughly 5.5% by spring, according to our most recent [scenario](#). Canada-wide unemployment will likely hover between 6.5% and 7.0% in 2024, compared to 5.7% in October 2023.

The job vacancy rate has been on a near-continuous decline since Q3 2022, and is now close to its pre-pandemic level (graph 1). In August 2023, the job vacancy rate was 4.0% in Quebec

**GRAPH 1**  
The Job Vacancy Rate Is Coming Down Gradually and Now Approaching January 2020 Levels



Note: No data available for April to September 2020.  
Sources: Statistics Canada and Desjardins Economic Studies

and 3.8% in Canada (compared to 3.8% and 3.5%, respectively, in January 2020).

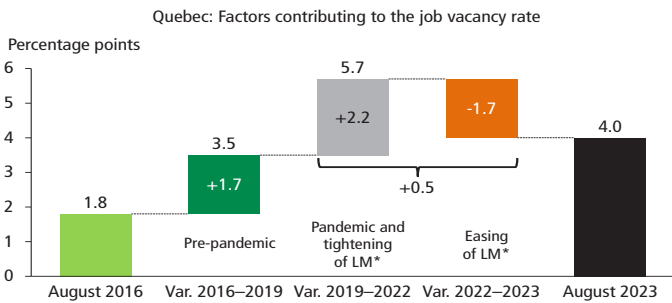
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.  
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However, the labour shortage was an issue before the pandemic. In Quebec and across Canada, job vacancies increased between 2016 and 2019. In fact, the pre-pandemic period accounts for the better part of the change in the job vacancy rate between 2016 and today. In Quebec, the rate increased by 1.7 points from 2016 to 2019 (pre-pandemic period) and by 0.5 points between 2019 and 2023 (August data) (graph 2). This means the labour shortage is now primarily structural.

► **Changing labour needs:** Demand is growing for workers in certain professions (such as data scientists and software engineers) and specialized skills (such as programming, analytics and data mining). However, there aren't enough new graduates to keep up with demand. Sectors can experience specific shortages when there's a misalignment between what's needed and what's available (both in terms of worker numbers and qualifications).

**GRAPH 2**  
After Soaring during the Pandemic, the Job Vacancy Rate Is Now Starting to Ease



\*LM: Labour Market  
Sources: Statistics Canada and Desjardins Economic Studies

**Industry Outlook**

Despite the softening labour market, some sectors are still contending with high job vacancy rates (graph 3). Will this be a lasting issue? It depends on the sector.

**Economic factors that exacerbated the labour shortage:**

- The massive resurgence in demand during the 2021 reopening of the economy (as a result of pent-up demand at the height of the pandemic in 2020 when many businesses were forced to close or scale back operations due to public health restrictions).
- Supply constraints (supply chain bottlenecks, slowed production in the manufacturing sector, particularly in China).

**GRAPH 3**  
Health Care and Accommodation and Food Services Sectors Continue to Grapple with High Job Vacancy Rates



\*Admin, support and waste management  
Sources: Statistics Canada and Desjardins Economic Studies

**Structural factors that predate the pandemic,** but are still an issue today and will continue to be over the medium term:

- The aging population, with two effects:
  - A significant wave of retirements and faster growth of the population of adults 65 and older compared to the working-age population (ages 20–64). According to the Institut de la statistique du Québec, seniors ages 65 and up made up 20.8% of the Quebec population in 2022, but this proportion is expected to rise to 25% in 2031 and 27% in 2066. Meanwhile, the 20–64 age group is expected to decline by 2031.
  - As people live longer, their needs for health care and social assistance services grow.

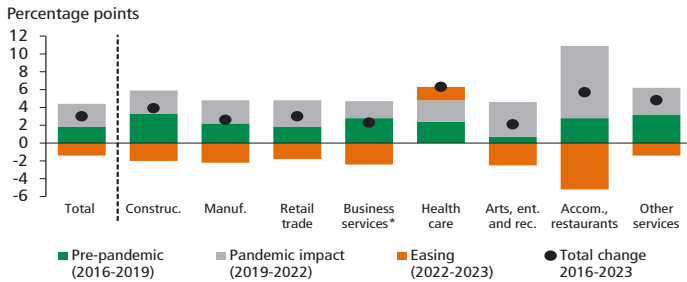
The labour shortage remains problematic—and is likely to persist—in the sectors that struggled to find workers before the disruptions that occurred from 2020 to 2022 due to the pandemic and subsequent market adjustments.

This is the case for the construction sector, which saw its job vacancy rate shoot up more strongly between 2016 and 2019 than it did between 2019 and 2023 (graph 4 on page 3). (See box 1 on page 4 for additional details about the labour shortage in this sector.)

The same is true for the other services category, which includes maintenance and repairs (such as auto repair shops), dry cleaning, and personal care services (such as hair and beauty salons). In the accommodation and food services sector, the strong increase is attributable to the pandemic and is now starting to ease, at least somewhat. In health care, structural factors are such that the job vacancy rate hasn't come down at all since Q2 2022. In fact, the opposite is true. The labour shortage in this sector is likely to persist because of the aging population, as we can see from the data on vacancies by occupation. Between Q2 2022 and Q2 2023, job vacancies fell almost across the board, except for occupations in health care (+5,900), such as nurses (+3,700) (table 1 on page 3). There was also an increase, albeit slight,

**GRAPH 4**  
**The Pandemic Only Aggravated Existing Labour Shortages in the Construction and Other Services Sectors**

Quebec: Factors contributing to the job vacancy rate, by sector



Note: Select sectors. Data as at Q2. \*Admin, support and waste management.  
 Sources: Statistics Canada and Desjardins Economic Studies

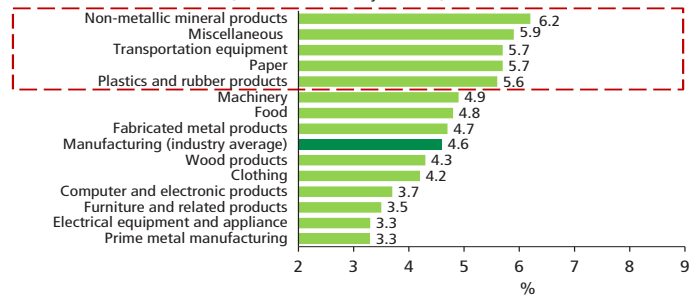
in the education, law and social, community and government services category (+590).

In manufacturing, the labour shortage predates the pandemic and continues to be an issue. The transition to advanced manufacturing (Industry 4.0)<sup>1</sup> has increased demand for specialized skills in areas such as programming, data analytics and artificial intelligence. The industry is having a hard time attracting talent as many new graduates are drawn to the tech

sector instead. Some subsectors are more affected than others (graph 5). Already, the industry has come up with innovative solutions to significantly boost productivity, such as a “connected workforce” capable of running three shifts per day, by leveraging Industrial Internet of things (IIoT) technology. Manufacturers have also been offering in-house training to help workers gain the skills needed for Industry 4.0.

**GRAPH 5**  
**Some Manufacturing Sectors Are More Affected by the Labour Shortage than Others**

Quebec: Job vacancy rate – Q2 2023



Sources: Statistics Canada and Desjardins Economic Studies

**TABLE 1**  
**Vacancies by Occupation in Quebec**

	Number of vacancies at Q2 2023	Change over Q2 2022	Change in %
<b>Sales and services</b>	<b>62,925</b>	<b>-22,990</b>	<b>-26.8</b>
Food counter attendants, kitchen helpers and related support occupations	14,410	-6,285	-30.4
Chefs and cooks	5,005	-3,110	-38.3
Food and beverage servers	2,980	-2,880	-49.1
<b>Trades, transport and equipment operators and related occupations</b>	<b>30,975</b>	<b>-11,785</b>	<b>-27.6</b>
Motor vehicle and transit drivers	5,330	-2,490	-31.8
<b>Manufacturing and utilities</b>	<b>11,300</b>	<b>-8,190</b>	<b>-42.0</b>
Labourers in processing, manufacturing and utilities	4,135	-3,200	-43.6
Processing and manufacturing machine operators and related production workers	3,410	-2,715	-44.3
<b>Natural and applied sciences and related occupations</b>	<b>14,460</b>	<b>-6,995</b>	<b>-32.6</b>
<b>Health care</b>	<b>28,215</b>	<b>5,930</b>	<b>26.6</b>
Professional occupations in nursing	10,555	3,685	53.6
<b>Business, finance and administration</b>	<b>22,990</b>	<b>-3,615</b>	<b>-13.6</b>
<b>Arts, culture, recreation and sport</b>	<b>4,085</b>	<b>-2,590</b>	<b>-38.8</b>
<b>Natural resources, agriculture and related production occupations</b>	<b>3,190</b>	<b>-1,235</b>	<b>-27.9</b>
<b>Education, law and social, community and government services</b>	<b>16,000</b>	<b>590</b>	<b>3.8</b>
<b>Total</b>	<b>202,095</b>	<b>-52,380</b>	<b>-20.6</b>

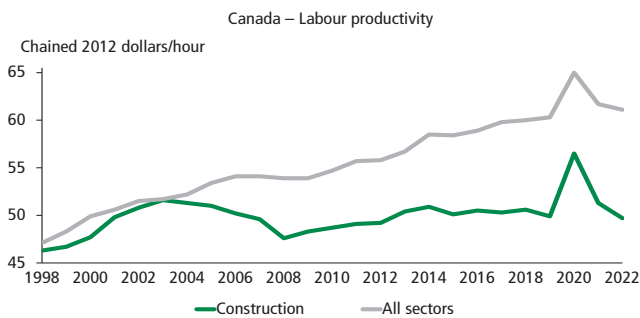
Sources: Ministère de l’Emploi et de la Solidarité sociale du Québec and Desjardins Economic Studies

<sup>1</sup>Advanced manufacturing is defined as “manufacturing with a focus on interconnectivity, machine learning, automation and the analysis of real time data that involves the Industrial Internet of Things (IIoT), the cloud, advanced computing and artificial intelligence.” (Source: [Canadian Manufacturing, Advanced Manufacturing Outlook 2024](#))

**BOX 1: A Look at the Construction Sector**

According to a 2023 [study](#) by the Commission de la construction du Québec, there aren't enough new graduates in several occupations to meet the construction industry's needs. This means the industry will have to find innovative ways to do more with fewer workers. As it stands, the construction sector is plagued by sluggish productivity, an issue that needs to be addressed. (See graph 6 and our recent [note](#) on disruptive innovation.) The industry also needs to be prepared to meet the soaring demand for new homes, which is being driven by Canada's robust population growth.

**GRAPH 6**  
The Construction Sector's Productivity Is Lagging



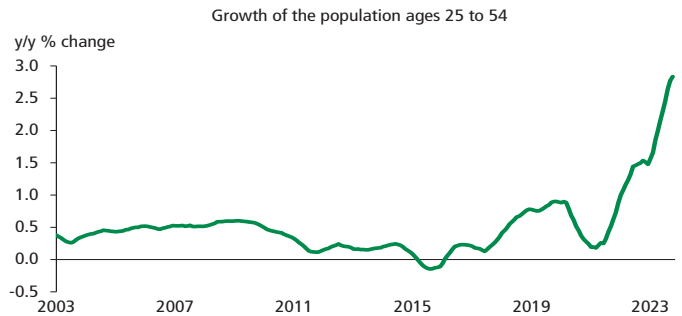
Sources: Statistics Canada and Desjardins Economic Studies

**Factors Going Forward**

We expect the labour shortage to ease in the short term but continue to be an issue over the medium and long terms. However, certain factors could help the situation improve sooner:

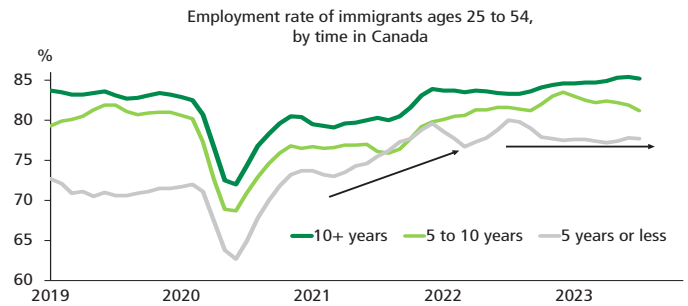
- ▶ Providing ongoing training, especially within workplaces, to support employee upskilling, reskilling and retraining.
- ▶ Growing the working-age population, particularly through immigration.
- ▶ Improving immigrant workforce integration. (See graphs 7 and 8.)
- ▶ Investing in modernization, automation and digitalization to increase the productivity of businesses and organizations.
- ▶ Developing strategies to retain older workers and set up inter-company labour sharing arrangements.
- ▶ Increasing the attractiveness of industries experiencing more acute shortages, such as health care and manufacturing.

**GRAPH 7**  
Canada: The Potential Labour Pool Is Expanding Rapidly...



Sources: Statistics Canada and Desjardins Economic Studies

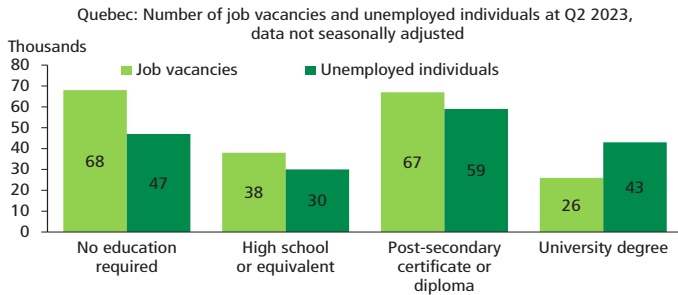
**GRAPH 8**  
...but Recent Immigrant Integration Has Plateaued



Sources: Statistics Canada and Desjardins Economic Studies

The labour shortage affecting the accommodation and food services sector, as well as the other services category, is partially attributable to a loss of workers who retrained and sought employment in other fields in response to pandemic disruptions. Will these sectors succeed in attracting a new generation of workers? Or will they be forced to change the way they operate through innovation and automation? This remains to be seen. However, these sectors may very well need to adapt to the new normal because they typically require low-skilled workers, and demand for this type of worker currently outstrips supply (graph 9 on page 5). That said, we expect that over the next few quarters, the economic slowdown will curb the worker shortage significantly in both sectors. Demand will fall as households scale back discretionary spending. While these sectors will still struggle to fill positions, their vacancy rates should return to 2019 levels of around 5%.

**GRAPH 9**  
**There’s a Continued Shortage of Workers for Positions with Limited or No Educational Requirements**

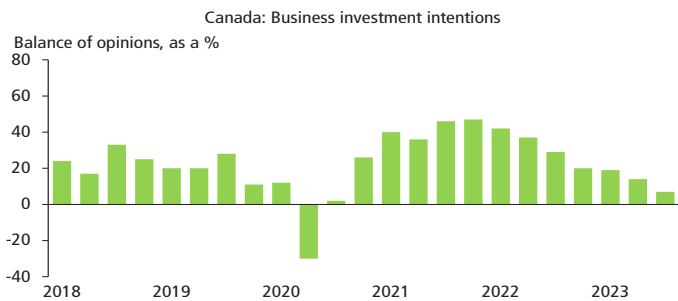


Note: For unemployed individuals: average for the months of April to June  
 Sources: Statistics Canada, Institut du Québec and Desjardins Economic Studies

**Conclusion**

Broadly speaking, the labour shortage won’t disappear unless the economies of Quebec and Canada undergo a major transformation—one marked by tremendous strides in labour productivity made possible by investments in machinery and equipment, digitalization, R&D, innovation and other strategies. Despite the longstanding Canada—US labour productivity gap, Canadian businesses seem to have a low investment appetite right now (graph 10).

**GRAPH 10**  
**Canadian Businesses Have a Low Investment Appetite Right Now**



Sources: Bank of Canada and Desjardins Economic Studies

Some sectors will continue to feel the labour crunch more than others, particularly health care and social assistance, construction and certain manufacturing subsectors (table 2). These sectors will have to adjust to the new reality by turning to automation and business model innovation. They’ll also need to focus on training and attracting new talent.

**TABLE 2**  
**The Labour Shortage Will Persist in Some Sectors Due to Structural Pressures**

INDUSTRY	STRUCTURAL PRESSURES
Health care and social assistance	<ul style="list-style-type: none"> <li>• Growing needs due to the aging population</li> <li>• Retention and attraction issues</li> </ul>
Construction	<ul style="list-style-type: none"> <li>• Insufficient supply of qualified workers to meet demand</li> <li>• Poor integration of immigrants in the sector</li> <li>• Growing population and increased need for housing stock</li> </ul>
Manufacturing	<ul style="list-style-type: none"> <li>• Challenges in attracting talent</li> <li>• Changes in required skills</li> <li>• Aging workforce</li> </ul>
Accommodation and food services	<ul style="list-style-type: none"> <li>• Workers left the industry during the pandemic</li> </ul>
Other services	<ul style="list-style-type: none"> <li>• Demand outpacing supply for less-skilled workers</li> </ul>

Source: Desjardins Economic Studies