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Canada Oilsands Boom Bypassing Factory Workers: Economy

By Greg Quinn - Jan 8, 2013

Canadian Prime Minister Stephen Harper has staked the future of the world's 11th largest economy on natural resource wealth spreading across the country. Brandy Damm, a welder who lost her job from a locomotive factory in London, Ontario, last year, isn't seeing the benefit.

Damm was one of about 465 unionized workers fired after Caterpillar Inc. (CAT)'s Electro-Motive Canada unit said it would close its London plant following a labor dispute. Now, many of the jobs in her field are paying far less than the C$20 ($20.24) to C$30 per hour common at the factory -- some just above Ontario's C$10.25 per hour minimum wage.

"You feel like you are spinning your wheels," Damm, 36, said by telephone from a job center created after the factory closed. "The time and energy we put into our trade to be good at it is worth something, and I think it's worth a lot more than eleven dollars an hour."

Harper and his cabinet ministers have argued that developing Alberta's oilsands, part of the world's third largest oil reserves, will bring economic opportunity across the country. Natural Resources Minister Joe Oliver estimates that more than 600 major resource projects may lead to C$650 billion of investment over the next decade.

"A strong resource sector in the west means high-quality manufacturing jobs in the east," Harper said Jan. 4 at a Ford Motor Co. of Canada Ltd. factory in Oakville, Ontario.

The numbers suggest otherwise. Companies in the mining, quarrying and oil and gas industries have increased payrolls by 11,700, or 4.4 percent over the five years to the end of 2012, according to Statistics Canada data. Over the same period, manufacturing employment has dropped by 182,900, or 9.4 percent, as factories struggle with the impact of a strong currency and weak global demand.

Factory Firings

Put another way, for every natural resource job that's been added in Canada since the end of 2007, more than 15 factory jobs have been lost.

"It may be easiest to think of the Canadian labor market as two labor markets linked by only partially mobile workers," said Paul Beaudry, an economics professor at the University of British Columbia in Vancouver whose research has been sponsored by the Bank of Canada. "While there has been substantial migration toward the resource-rich areas, many individuals are reluctant to move for either family reasons or because their skills may not match what is needed."

Canada's benchmark Standard & Poor's/TSX Composite Index (SPTSX) rose 4 percent in 2012, trailing the performance of markets in every developed nation except Spain and Portugal. The index was little changed today at 12,504.81 in Toronto, while the Standard & Poor's 500 Index fell 0.3 percent to 1,457.15 in New York. Canadian government bonds returned 2.2 percent last year, compared with 3.8 percent for government bonds of the Group of Seven nations.

Slow Growth

Canada's economy expanded 0.1 percent in October, the first gain in three months, while inflation fell to the slowest in three years at 0.8 percent in November. Unemployment has remained near 8 percent for almost two years in Ontario, Canada's most populous province, even as companies such as Calgary's Imperial Oil Ltd. (IMO) develop the oilsands. While Canada's jobless rate fell to a four-year low of 7.1 percent in December, unemployment in London averaged 8.6 percent over the past three months, Statistics Canada said, compared with Calgary's 4.6 percent and Edmonton, Alberta's 4.3 percent.

Infrastructure Priority

The government has no special policies in place to encourage resource companies to use domestic suppliers. "Our priority is getting the infrastructure built," Oliver spokesman Chris McCluskey said by telephone. "Any project that moves forward is a benefit to manufacturers."

The oilsands have "immense value to the future economic prosperity of all Canadians," Oliver said in a speech last month. Three months earlier, he talked about visiting an Aecon Group Inc. (ARE) factory in Cambridge, Ontario, which "fabricates and assembles piping modules for an oilsands project in Alberta and employs 550 people in well-paying, high-quality skilled jobs."

Aecon, a Toronto-based construction company, cited "increased module assembly, pipe fabrication and site construction work in Western Canada" for helping to boost profits in the third quarter of last year.

Limited Benefits

Still, Statistics Canada data suggests the benefits of the oilsands to Ontario have been limited. Average hourly wages for Alberta workers in the "other trades" category, which includes welders, machinists and electrical workers, are 25 percent higher than Ontario ones. As recently as 2005, Ontario workers were paid more.

Manufacturing jobs have been declining as a share of Canada's workforce, falling to about 10 percent at the end of 2012 from about 15 percent in 2000. Ontario is home to about 45 percent of those jobs.

Some have even said the investment in natural resources has made the decline in manufacturing worse. The argument, advanced by Tom Mulcair, leader of Canada's main opposition New Democratic Party, is that capital inflows to the oilsands have artificially boosted the value of the Canadian dollar. A 58 percent rise in the currency over the past 10 years has made Canadian factory goods more expensive abroad, Mulcair says, hobbling an economy that relies on exports for one-third of its output.

Worldwide Decline

Others, including Bank of Canada Governor Mark Carney, disagree. In a speech in Alberta last year, Carney said the increase in the currency couldn't be tied only to high commodity prices that have spurred investment in resources. As well, he said Canada's "decline in manufacturing is only partially in response to the rising exchange rate and, in fact, is part of a broad, secular trend across the advanced world." Globalization and technological advances have spurred factory job losses in the major industrialized economies, he said.

Regardless of the cause, manufacturing's share of Canada's labor force will keep falling, said Toronto-based BMO Capital Markets deputy chief economist Doug Porter, who grew up in London.

"We can debate what exactly has caused that rise in the currency but it's still having an effect on the job market," Porter said. "We are seeing employment and industry adjust to that new reality."

Oil Shift

The energy industry has a history of adjusting. Imperial was founded in London in 1880 after oil was discovered nearby. It later moved its headquarters to Toronto, and then to Calgary, after much of southwestern Ontario's oil was taken out of the ground.

Now, skilled workers in London will struggle to find local energy-related jobs because much of the work on oilsands projects must be done on site, said Mike Moffatt, assistant economics and public policy professor at Western University in London. Older workers will also struggle to adapt their skills, adding to long-term or "structural" unemployment, he said.

"Just because those skills are in demand doesn't mean they are in demand in London," he said. "You should give tours of it, abandoned plants, because there are dozens of them."

Only about 150 of the unionized staff at the closed Electro-Motive Canada plant have found work according to Bob Scott, who runs the job center created after the factory closed. Workers who made between C$20 and C$30 an hour are being offered about C$14 or C$15, he said.

Dim Prospects

Damm has been taking shift work at the post office to help pay bills. While job prospects in London are dim, she said she won't move to Alberta. "The work is hard and they do pay well for it but eventually it will dry up, it's not going to last forever," she said. "My partner is very stable here so it would not even cross my mind to pack up and move out there."

As for the energy boom bringing orders and jobs to Ontario, she said, "here in London I don't see any direct links" between local manufacturing and energy demand.

Scott said the Electro-Motive job center is scheduled to close in September and he is worried about colleagues who will run out of severance and unemployment benefits before finding new work.

"A lot of divorces are coming out of this closure," he said. "It's been very difficult on a lot of people."

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