
Help Wanted: The Labour Shortage Crisis and Canada's Foodservice Industry

Executive Summary

Over the next 20 years, the one-two punch of low fertility rates and the retirement of baby boomers will create a labour shortage crisis of unparalleled proportions. Restaurant owners -- along with businesses in other industries -- will not have enough staff to run their businesses, resulting in lost investment and business closures. By 2020, the Conference Board of Canada predicts a labour shortage of nearly one million people. Economic forecasting company Global Insight expects the labour shortage will reduce real GDP from 3% annual growth to less than 2% -- costing the Canadian economy billions of dollars in lost output.

In many towns and cities across Canada, business owners are already encountering major staffing challenges. With the unemployment rate at a 30-year low, there are simply not enough people to fill all the job vacancies. To make matters worse, foodservice operators are losing workers to other, higher-paying industries. In Alberta, there is currently a shortage of 13,000 employees in the foodservice industry. Signs are now emerging that the labour shortage crisis is spreading to foodservice operations in British Columbia, Saskatchewan, Manitoba and Ontario.

While Canada's foodservice industry has faced its share of challenges over the years, nothing will affect the industry more than a labour shortage. Over the next 10 years, the foodservice industry will require an additional 200,000 employees as

rising disposable income and an aging population lead to greater household spending on foodservice. A restaurant that is short-staffed cannot provide the same level of service as a fully-staffed restaurant, resulting in lost business, a reduction in investment and diminished growth for the overall economy.

Urgent action is required to lessen the impact of a labour shortage.

- First, structural changes are needed to the Employment Insurance (EI) system to encourage worker mobility from regions of high unemployment to regions of low unemployment.
- Second, the immigration and foreign worker programs need to be overhauled to expedite the processing of applications from both temporary and permanent workers.
- Third, federal and provincial governments need to remove the structural impediments embedded in legislation and policies that were created to deal with outdated labour market conditions.



Employment in Canada's Foodservice Industry

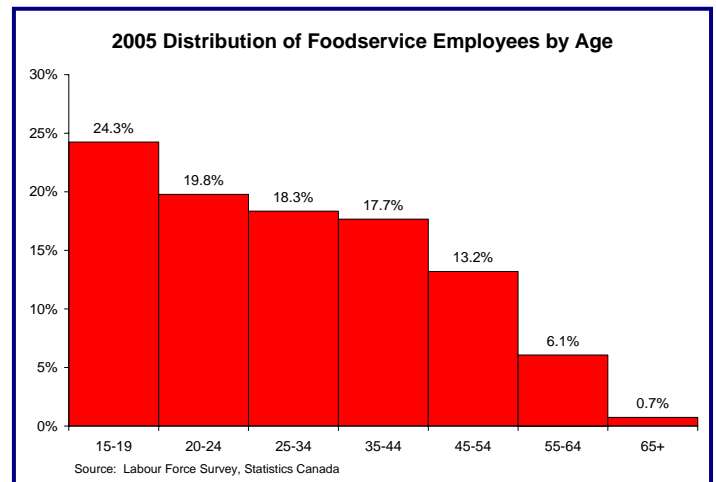
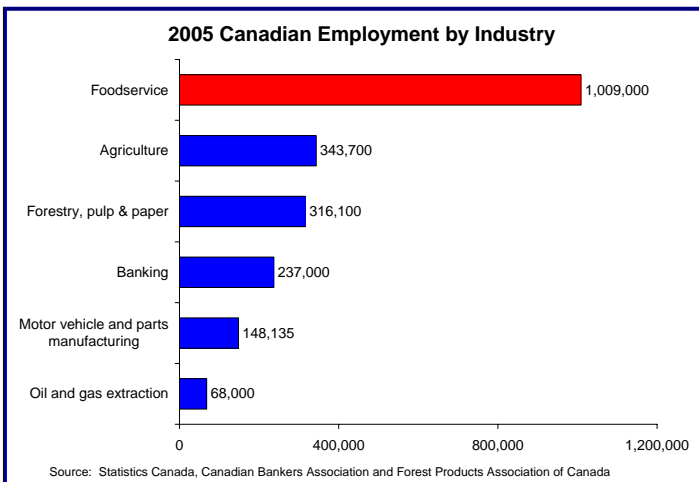
Foodservice truly is a people business. It is one of the most labour-intensive industries in Canada, employing more than one million people in 2005, or 6.2% of Canada's workforce.

The foodservice industry is the second-largest employer of youth in Canada, generating one in five jobs for young Canadians. Fully 44% of foodservice employees are under the age of 25. Hiring young Canadians gives restaurant operators the flexibility to have an appropriate level of staff for peak meal times and during the busy tourist season.

The foodservice industry also hires a diverse cross-section of Canadian society. Many new immigrants get their first job in foodservice, where they build literacy skills and gain Canadian work experience that helps them integrate into the Canadian labour market. According to Statistics Canada, nearly one-third of recent immigrants, i.e. those in Canada for less than five years, work in sales and services.

People are required at every stage of a foodservice operation: from sourcing, preparing and cooking meals and snacks to serving customers and keeping the restaurant clean, in addition to supervisory and managerial responsibilities. In fact, 31 cents out of every dollar spent at a restaurant goes to employee wages and benefits.

While many industries in Canada are reducing their workforce through automation or outsourcing to foreign countries, people remain essential for a successful foodservice operation. As a result, foodservice employment has steadily grown over the past 60 years, from 192,000 in 1945 to 1,009,000 in 2005. Today, more Canadians work in foodservice than in agriculture; forestry, pulp and paper; banking; and oil and gas extraction, combined.



The Current Challenge: 2006

A labour shortage has a detrimental impact not only on the foodservice industry, but on the economy as a whole. With few opportunities to substitute capital for labour, a restaurant that is short-staffed is unable to provide the same level service as a fully staffed restaurant. When service suffers, customers stop going to the restaurant and sales decline. Operators are then unable to make the investments necessary to sustain and grow their businesses, resulting in diminished growth opportunities for the overall economy.

"...businesses have lower sales, are less successful and are making smaller investments simply because of labour shortages" – Paul Hollands, CEO of North Vancouver-based A&W Food Services of Canada¹

With unemployment rates in Western Canada at or near 30-year lows, businesses in most industries are experiencing some degree of labour shortage. In British Columbia, there is a labour shortage of at least 20,000 people a year.² In Alberta, the adult unemployment rate hovers below 3%, compared to 6% for the rest of Canada. The youth unemployment rate in Alberta has decreased to 6.1%, roughly half the national rate of 11.5%. A recent survey found that more than 8 in 10 small business owners in Alberta have experienced difficulties in hiring employees in the past three years.³

To cope with labour shortages, employers are boosting wages and increasing benefits to attract workers. The average industrial weekly wage in Alberta rose 5.2% in 2005 – the fastest growth in the country. A national grocery store chain is offering Atlantic Canadians thousands of dollars in moving expenses, airfare and a salary of at least \$30,000 per year to relocate to Alberta.⁴ Most businesses, however, do not have the resources to compete with billion dollar corporations. In fact, 65% of small business owners in Alberta say they are unable to pay higher salaries and benefits to attract workers.⁵

The foodservice industry has raised wages in an attempt to attract qualified workers, but these increases are constrained by rising operating and food costs, as well as slim profit margins. Furthermore, operators are limited in their ability to pass on wage increases in the form of higher menu prices because consumers are extremely price sensitive.



¹ "Shortage of Workers 'serious': Best answer is to train and retain staff," The Province, April 28, 2006

² Ibid.

³ "Alberta's Growing Shortage of Qualified Labour," Canadian Federation of Independent Business, January 2006.

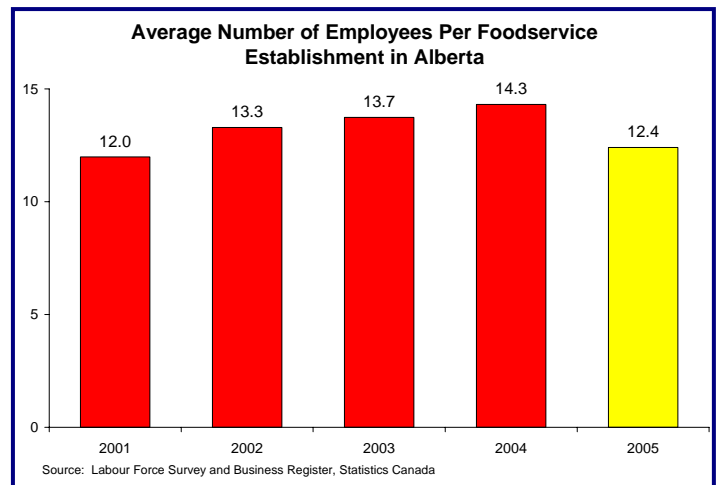
⁴ "Alberta companies look eastward to find workers," CTV.ca, January 14, 2006

⁵ "Alberta's Growing Shortage of Qualified Labour," Canadian Federation of Independent Business, January 2006.

CRFA's econometric model of the foodservice industry shows that a 1% increase in the price of meals and snacks sold at restaurants reduces total foodservice sales by 1.03%. Menu prices must be competitive with food prices at grocery stores – which already enjoy a significant price advantage because groceries aren't subject to provincial sales tax or the goods and services tax. Raising menu prices to offset higher labour costs will simply contribute to inflation and dampen consumer demand.

In Alberta, the competition for labour is so fierce that foodservice employment fell in 2005 as workers fled to industries offering higher-paying jobs. Despite a 16% jump in average hourly wages since 2003, the average number of employees per unit in Alberta fell from 14.3 in 2004 to 12.4 in 2005. Given that Alberta led the country with an 8.1% increase in sales in 2005, the number of workers per unit should have increased to meet the rise in demand. The decline in employment represents a shortage of more than 13,000 people in Alberta's booming foodservice industry. Similar labour shortage problems are emerging at foodservice establishments in Saskatchewan, British Columbia and Manitoba and are expected to intensify in the years to come.

The labour shortage in the foodservice industry is not just about finding enough people to fill unskilled positions, as there is a shortage of both unskilled and skilled people. Quick-service restaurants are unable to attract and retain enough entry-level workers to operate cash registers and clean dishes. Full-service restaurant operators are struggling to find qualified chefs and cooks.



Looking Forward – The Labour Market and Canada’s Economy

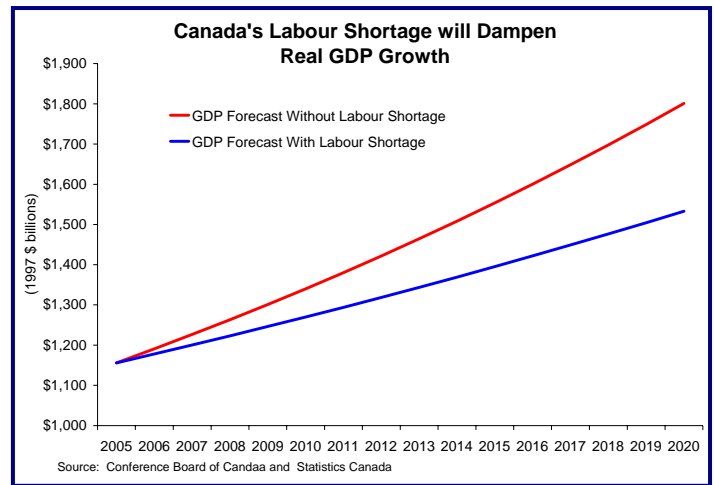
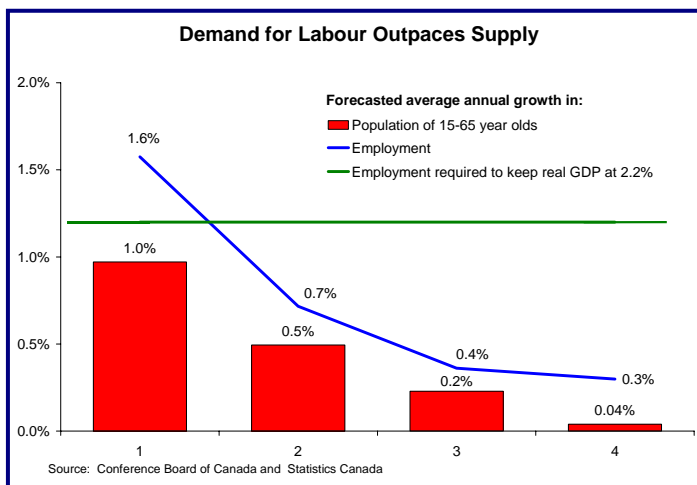
Over the next 20 years, businesses in Canada will struggle to find enough labour as the one-two punch of baby boomer retirements and low fertility rates restrain the overall size of the Canadian labour force. Population projections by Statistics Canada show the number of 15 to 65 year olds will slow from the current 1.0% annual growth to 0.04% by 2025. This has serious implications for the Canadian economy.

For Canada’s economy to maintain modest real GDP growth of 2.2% per year over the next 20 years, employment would need to expand 1.2% annually, assuming a 1.0% increase in productivity. Under this scenario, the Conference Board of Canada estimates a shortfall of more than 950,000 workers by 2020.⁶

The labour shortage will restrain employment growth well below the level necessary to keep real GDP growth above 2.2%. Forecasts by the Conference Board of Canada show employment growth moderating over the next 20 years so that by 2020-25, employment in Canada will average just 0.3% annual growth.

Forecasting company Global Insight estimates that the slowdown in employment will reduce potential GDP from 3% annual growth to less than 2% over the next decade.⁷ As a result, Canada’s GDP will be 15% lower because of the labour shortage.

While some might argue that productivity increases could offset the labour shortage, productivity would have to grow by a robust 1.7% just to maintain 2% real GDP growth. Historically, productivity growth in Canada has been mediocre, averaging just 1.1% annual growth between 2000 and 2005.



⁶ “Wanted: Skilled Workers to Fill the Upcoming Labour Shortage,” Performance and Potential 2000-2001, Conference Board of Canada.

⁷ “Aging boomers to slow growth, study says,” The Globe and Mail, March 15, 2006.

Looking Forward – The Labour Market and Canada’s Foodservice Industry

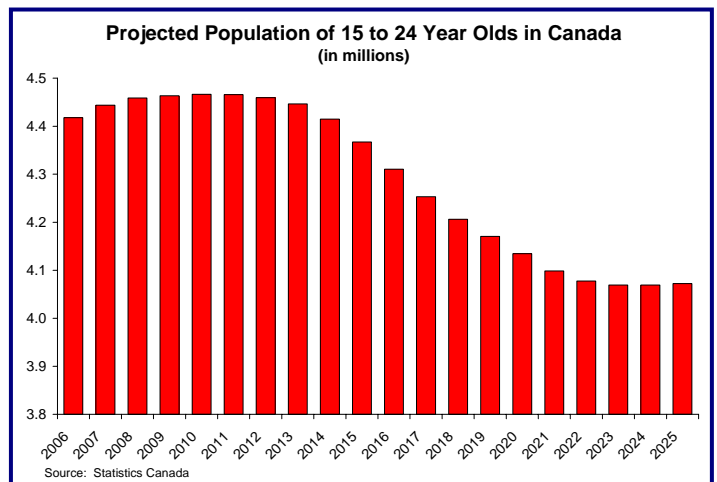
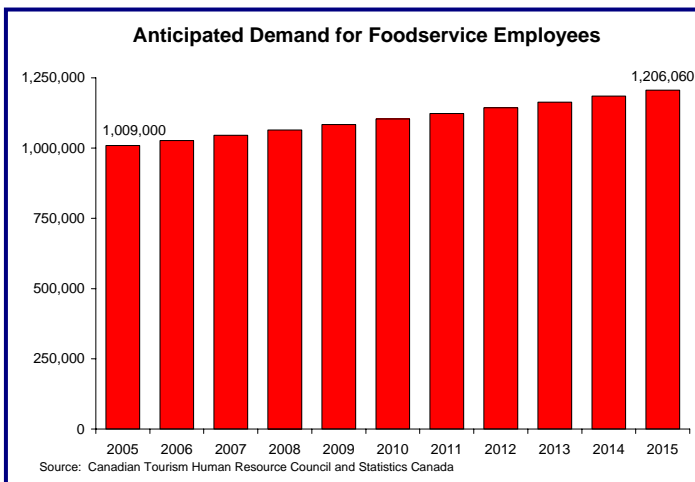
Over the next 10 years, the foodservice industry will require an additional 200,000 employees as rising disposable income and an aging population lead to greater household spending on foodservice. This represents a 1.8% annual increase in the demand for foodservice employment, significantly outstripping the population growth of 15 to 65 year olds during the same period.

In order to counter the labour shortage, some industries have increased productivity by replacing people with machines. Foodservice is by definition a people business, so the chance that productivity improvements will help address the labour shortage in hospitality jobs is slim.

In Alberta, where the labour shortage is already quite severe, demand for foodservice employees is forecast to grow a staggering 33% over the next 10 years. In British Columbia and Ontario, demand for foodservice employees will grow by 25% and 23% respectively.

While most businesses in Canada will face labour shortage problems due to the retirement of the baby boomers, the labour shortage in the foodservice industry will be exacerbated by a steady decrease in the number of young people that typically filled the industry's entry-level positions.

Young people, between the ages of 15 and 24, account for 44% of total foodservice employment. While rising demand for foodservice will fuel a growing demand for foodservice workers, the population of 15 to 24 year olds will decrease by 330,000 between 2006 and 2025. Given that some operators are already struggling to fill positions, a 7.8% drop in the number of 15 to 24 year olds over the next 20 years will have severe economic consequences.



Solutions

Canada's labour shortage is a complex challenge that requires bold and innovative solutions from both business and government. Business must be more flexible and imaginative in their recruitment of workers and must place a higher priority on the retention of existing employees. Government must remove the structural impediments in the labour market by changing employment and immigration policies that were developed in an era when unemployment was the national challenge.

Here's what governments can do to alleviate Canada's labour shortage crisis.

1) Encourage Labour Mobility

Unemployment rates in Western Canada are tumbling to 30-year lows, yet the youth unemployment rate in parts of Canada remains high. The federal and provincial governments should provide incentives and resources to help Canadians migrate, on a temporary or permanent basis, from high unemployment regions to regions experiencing chronic labour shortages. This would be facilitated by changes to the existing EI program and the allocation of additional resources to Employment Centres across Canada.

2) Increase Immigration and Foreign Worker Programs

To offset the labour shortfall in Canada, immigration will have to almost double from the current level of 250,000 people a year to 400,000 a year over the next decade. By the 2020s, immigration would have to jump to more than 700,000 a year.⁸

To facilitate this growth, significant changes are required to immigration policies, processes and legislation. The Immigration Act is designed to attract skilled workers to Canada, while ensuring job protection for Canadians, by using a point system that rewards those looking to apply in high-skilled professions, such as engineers or doctors.

Less skilled workers can apply for work permits through temporary foreign worker programs, but these programs are restrictive and bureaucratic.

Canada's underlying immigration philosophy, that immigrants should not take jobs from Canadians, is deeply embedded at all levels in the philosophy and administration of immigration programs in Canada. Addressing the labour shortage, short term and longer term, will require a complete re-think of the program and its purpose. Canadian companies will increasingly be competing with other developed nations around the world for immigrants to fill skilled and unskilled positions. Canada's immigration system has to go from being a barrier to entry to one that becomes an advocate for entry.



⁸ "Aging boomers to slow growth, study says" The Globe and Mail, March 15, 2006.

Among the changes required to existing immigration philosophy is greater emphasis on attracting families so that young adults can enter the workforce and encouraging immigrants to move to parts of the country where labour is scarce.

Temporary work programs must be expanded in terms of number of applications processed per year and the duration of these permits. Resources need to be invested to streamline the time and cost it takes to process applications. The Foreign Worker Program (FWP) takes 10 to 12 weeks to process formal job offer applications by businesses to foreign recruits.⁹ Depending on the specific job application, it then takes an additional six weeks to process a temporary work permit for favourable foreign applicants. All of this is in addition to the time it takes for businesses to identify and recruit workers, make a formal job offer, and arrange for medical, criminal and security checks.¹⁰

If government rejects the formal job offer application, Canadian employers and/or foreign recruits are nonetheless responsible for all associated costs already incurred in finding potential employees. This constitutes a significant financial burden for the small businesses that dominate the foodservice industry.

3) Loosening up regulations and legislation

Changing current government regulations and legislation could increase the size of the labour market. For instance, amending employment standards regulations to reduce minimum call-in periods and reduce hours of work restrictions would free up additional workers for foodservice and other industries. Modifying the Canada Pension Plan clawback would allow retired people to pick up hours of work and additional income without reducing their pensions. Currently there are many more applicants than spaces in hospitality programs at the secondary and post-secondary level. An increase in spaces in hospitality programs is also needed to alleviate skill shortages in the foodservice sector.

⁹ Analysis of Foreign Worker Program Options to Address Labour Shortages in the Tourism Industry: Applied to Kootenay Region's Housekeeper Labour Shortage" Grant Thornton, February 2006.

¹⁰ Ibid.

Conclusion

Foodservice operators across Canada are having difficulty finding and retaining skilled and entry-level workers. In Alberta, the situation is acute with an existing shortage of 13,000 foodservice employees. This has already led to a reduction in the number of hours many restaurants can open and reduces economic activity in that province.

Other provinces are also feeling the effects of a labour shortage as unemployment rates tumble to 30-year lows. Over the next 10 years, an additional 200,000 workers will be needed to fill positions in the foodservice industry.

To counter the labour shortage crisis, the Canadian Restaurant and Foodservices Association proposes three solutions:

- 1) The government should change the EI system to encourage Canadians to move from high unemployment areas to low unemployment areas.
- 2) Government should overhaul the immigration and foreign worker programs to increase the number of permanent residence and temporary permits for skilled and entry-level workers to Canada.
- 3) Governments should loosen regulations and red tape which act as structural impediments to employment.

About CRFA

Incorporated in 1944, CRFA is one of the largest business associations in Canada, with 31,000 members. CRFA members include restaurants, quick-service establishments, bars, hotels, caterers, institutions and foodservice suppliers.

CRFA's mission is to create a favourable business environment and deliver tangible value to its members in all sectors of Canada's foodservice industry. CRFA provides a variety of services to members including representation to government, research and information, group buying and national trade shows.



**Canadian Restaurant and
Foodservices Association**

**Association canadienne
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