

SPECIAL REPORT

TD Economics



October 7, 2013

Executive Summary

JOBS IN CANADA

Where, What and For Whom?

The main objectives of this report are three-fold. First, we shine the spotlight on the key shifts underway in the nation's job market, with particular emphasis on *where* the hiring has occurred, what *types* of jobs have been created and the *characteristics* of the people that have been filling those positions.

A second objective of this study is to put to the test a number of commonly-held perceptions surrounding jobs and skills more generally. Given its focus in the media, the labour market tends to be an area where perceptions form, some of which are not rooted in fact. In recent years, the notion of a severe and growing mismatch between the types of skills demanded by employers and those possessed by job seekers has topped the headlines. Other perceptions relate to a lost generation for today's youth as well as a hollowing out of middle-skill, middle-paid jobs. We leverage available data in order to determine to what extent these perceptions are in line with reality. Our findings show that while some of these perceptions are exaggerated, others are closer to the mark.

Third, we outline several strategies that are relevant to governments, employers, employees and educators to improve labour market efficiency going forward. There are a number of inherent weaknesses related to skills that are holding back the economy's potential and limiting the country's competitiveness. As such, bold and complementary action across the four key players is warranted. We touch on many of the key strategies to address skills deficiencies – some of which are already being implemented, albeit to varying degrees of success.

An eventful past decade

Labour markets are subject to continual change, and this past decade has provided a further case in point. Outstripping their G-7 counterparts by a wide margin, Canadian employers have added to payrolls at a strong rate since the early 2000s. This confidence has been underpinned by a number of factors, including a longer-term upward shift in commodity prices and an extended real estate boom. Other influences include sound macroeconomic, financial and regulatory policies which helped the country weather the economic downturn of 2008-09.

As is typically the case, these gains have not been equally shared across sectors and regions over the past 10 years. Consistent with shifts in migration flows, job growth has gravitated towards the resource-based west and away from manufacturing-based central Canada and the Atlantic. That said, all provinces except for New Brunswick have registered moderate-to-brisk job creation over the past 10 years. The balance of the nation's job gains also continued to swing towards the larger census metropolitan areas (CMAs). With young and highly-skilled workers increasingly desiring the amenities of downtown life, the pronounced suburbanization trend seen in the 1990s has cooled in recent years.

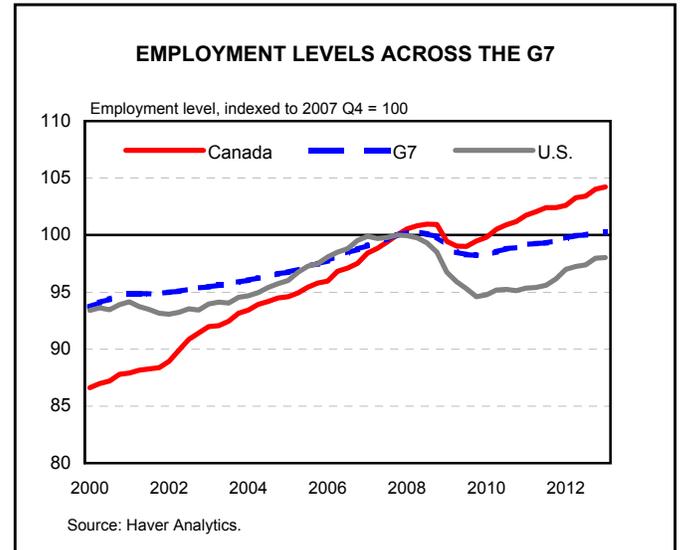
No U.S.-style job market polarization

The long-term upward trend in jobs requiring post-secondary education (PSE) credentials carried over into the past decade. More recently, however, the discussion surrounding education requirements in Canada and other G-7 countries has focused on the notion of labour market “polarization.” This global trend is characterized by rapidly-growing demand for high- and low-skilled employment at the expense of a relative decline in medium-skilled jobs. Since medium-skilled jobs tend to be repetitive in nature, they have become increasingly vulnerable to computer automation or outsourcing to low wage countries. Our analysis shows that a degree of polarization has taken place in Canada, but not nearly to the same extent as that observed in the United States. This outcome is due in part to the resource and construction booms which have provided support to a number of middle-skilled jobs in this country.

Baby boomers grow in importance, youths struggle

In the 1970s and 1980s, the increasing participation of women in the workforce was the dominant demographic trend. Over the past 10 years, an equally important demographic story has been the large footprint of older workers, who are punching well beyond their weight in terms of their contribution to net new employment. This trend not only reflects the sheer size of the baby-boom cohort – who are at or near the traditional retirement age of 65 years – but also the rising desire of these individuals to remain attached to the workforce longer than their parents.

At the other end of the age spectrum, the challenges of youth in the job market have intensified since the onset of recession about a half decade ago. The still-elevated youth unemployment rate partly reflects the typical pattern of younger workers being the last to get re-hired during an economic recovery. There is some comfort to be had that Canada’s youth unemployment rate challenge is nothing compared to the disaster in some European economies. It is also substantially more pronounced in the 15-19 year old age group, as the average unemployment rate is considerably higher than that possessed by 20-24 year olds. These high-school age workers tend to vie for the similar low-skilled service positions as seniors, suggesting that some of the recent softness in youth employment may have a structural element.



Temporary work absorbing a growing share of jobs

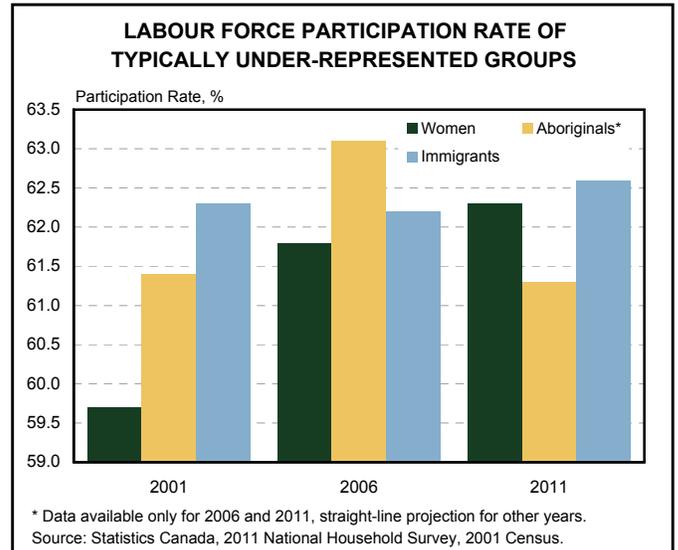
The share of temporary jobs – especially contract positions – has been on a gradual rise over the past decade. Temporary workers still make up the minority of the job market, filling up just one-in-seven positions. This upward trend has nevertheless fuelled concerns surrounding the quality of jobs being created, since research shows that temporary positions tend to pay lower wages, offer fewer employee benefits and are less likely to offer on-the-job training. For some individuals, however, temporary jobs can be an attractive alternative, especially older workers who are transitioning into full retirement or those with young children looking for flexibility. While there is a lack of reliable data on the desirability of temporary jobs, some surveys point to the growing harmful effect on household well-being from unstable temporary work.

Are skills gaps a growing constraint on hiring?

Although Canada has enjoyed a respectable job record over the past decade, there has been growing speculation that employer hiring has been held back by a lack of available workers and/or inadequate skills. Prior to the 2008-09 recession, there was much ink spilt about the challenge of economy-wide skills shortages. Since unemployment increased during the downturn, however, the attention has been more directed at job market imbalances specific to certain occupations and regions.

The perception of a mismatch of workers across occupations and regions has been tied to six key longer-term developments in Canada’s job market:

- *The sizeable change in Canada’s industrial mix* – areas such as health care and resources have experienced rapid growth, while manufacturing has been in decline. While research shows that the job market ultimately adjusts, these changes can take time. In the meantime, some workers are left with skills that are out of sync with labour market demands.
- *Regional growth differences and mobility challenges* – the rapid growth in the Prairies has resulted in shortages of many occupations, while other regions are home to surpluses. The number of workers willing to live in one jurisdiction and commute to another has increased over the past decade. Yet, the population share of Canadians that have actually moved across provincial boundaries has been stagnant, due in part to challenges related to credential recognition within regulated fields.
- *Rapid advancements in technology* – as the internet has taken hold, skills obsolescence among workers has become more of a problem.
- *Education system pumping out the wrong graduates* – often the view is held that the postsecondary (PSE) system in Canada is graduating too many Canadians in areas that make them ill-equipped to meet the demands of the job market, thus leaving a large pool of underemployed.
- *Workforce barriers to immigrants, Aboriginals and other under-represented groups* – a number of structural



impediments continue to hold back labour market participation rates for these groups, leaving employment outcomes weaker on average.

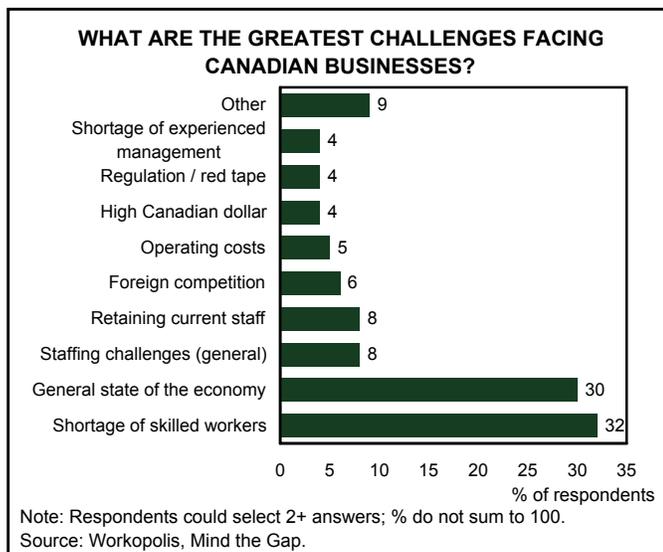
- *Foundation and skills imbalances* – although much of the focus of supply challenges is on a perceived mismatch in formal education, employers and educators complain in larger numbers that candidates lack foundational and soft skills which are imperative to the success on the job.

With the respect to their potential to lead to skills mismatch, some of these developments have more merit than others. It is hard to refute the fact that ongoing barriers to mobility and to under-represented groups increasing their labour market participation have represented system failures to varying degrees. Likewise, significant foundational skills gaps have been revealed in OECD data as well as employer surveys. On the flip side, it is debatable whether the impacts on labour supply from advances of technology since the early 2000s are any more significant than in prior decades. Ditto regarding the industrial mix effect, since Canada’s economy and labour market in the 1990s were also subject to significant changes. It is also hard to accurately measure skills outside of education and credentials.

The story behind PSE graduates

Perhaps the most attention surrounding mismatch has centred on the third point in the list: the perceived growing pool of domestically-trained university and college graduates that have wound up in positions that largely underutilize their skills.

OECD data show that one in three highly-educated em-





ployees aged 15-64 years old are over-qualified based on formal education. As one might expect, obstacles related to language, foreign credential recognition and others have led to worse results for foreign-born employees. While significant, the incidence of underemployment is in the same ballpark as in the U.S.

Data from the National Household Survey on employment outcomes are unlikely as bleak as many Canadians believe. Unemployment rates are higher for new PSE graduates on average than those aged 25-64, but not dramatically. There is no denying the fact that Canadians with more generalized degrees make up an important contingent of those in low-skilled, low paying jobs, at least in the early stages of their careers. And, the variability of employment outcomes of these graduates around the mean is likely wider than for more specialized fields. However, research suggests that many of these graduates manage to make up some of the lost ground over time. Lastly, the oft-held perception that Canada’s PSE system is heavily tilted towards generalized arts degrees is not borne out in the data.

Testing for labour shortages and mismatch

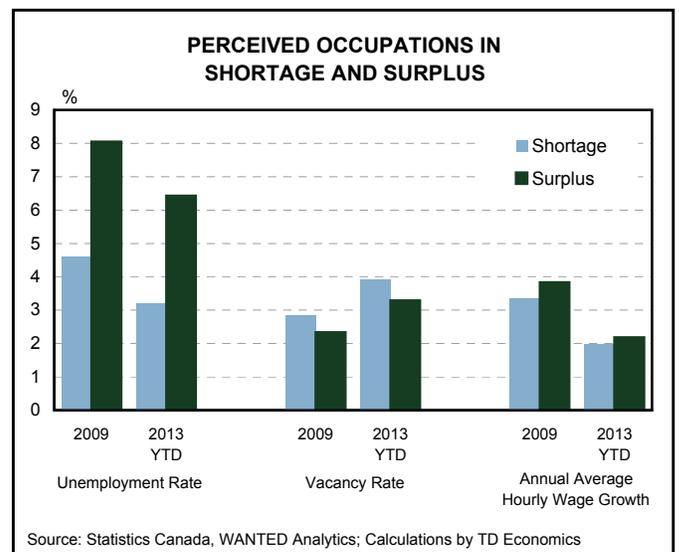
We carry out a test of the extent of labour shortages and skills mismatch more directly with the relatively limited available data in Canada. Several approaches were used to assess the degree of mismatch. Particular interest was placed on evaluating whether occupations that are commonly-perceived to be in shortage (e.g., trades, engineers and workers) are exhibiting the usual telltale signs of tightness. We also assess a number of areas alleged to be in excess supply, such as factory occupations or teachers. To do this,

a database was compiled of unemployment rates, wage rates and vacancy rates for more than 140 occupations.

Our results uncover some surprises. It is the case that occupations widely thought to be in shortage have recorded considerably lower unemployment rates than their counterparts in the surplus camp. Still, vacancy rates outside some pockets (e.g., trades) are not significantly higher than the rest and have not accelerated over the past few years. And strikingly, similar wage increases are noted in sectors in loose and tight markets.

Given the regional variations in labour market conditions, we tested occupational mismatch at the provincial level. Our findings corroborate the view that regional mismatch occurs, with vacancy rates rising more significantly in the Prairies, particularly in those occupations perceived to be in shortage. In addition, we discovered that employers in Alberta and Saskatchewan were also having difficulties filling workers in occupations widely believed to be in surplus, which points to the knock-on effects to the broad economy from strong resource development.

The story on the wage data remains curious, as wage gains out west have not increased to the extent that one might have thought given the signs of tightness. We cite in the report a number of factors that could be at play in holding back wages, including competitiveness pressures and the preference of employers to use non-wage channels to address hard-to-fill vacancies. We also do not rule out the possibility that the data provided by Statistics Canada Labour Force Survey are under-estimating wage pressures, as the figures do not include bonuses and other incentives,



but instead accounts for tips and commissions.

Fears about mismatch are largely forward-looking

While most of our focus in this report is on the here and now, many of the worries about supply constraints and skills mismatch look well into the future. The consensus view is that over the next ten years, demand for labour will ease compared to its historical trend rate. The challenge facing the labour market is that additions to the supply side are likely to soften in tandem with labour demand due to an ageing population.

Meanwhile, a number of organizations and industry groups have issued troubling projections of large and persistent labour market shortages. The Conference Board of Canada has estimated that the country faces a looming shortage of 1 million workers by 2020. A number of other associations – from environmental and engineering, information and communications technology (ICT) to restaurant and food – have joined the chorus, warning about growing gaps between supply and demand over the next 5-10 years.

Although forecasting can assist with planning and policy making, there is good reason to look at long-term projections with considerable scepticism. Results are highly sensitive to the assumptions made. Most of the projections assume the status quo, but theory would suggest that market forces would likely kick in over time and change the underlying dynamic. To the extent that labour market failures and rigidities exist – which is almost certainly the case – this adjustment can be muted, but it will not be fully negated.

Many of these forecasts also use growth accounting that

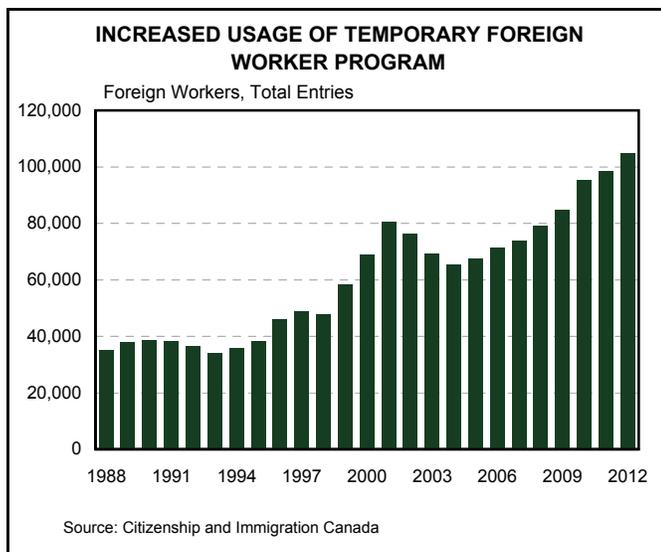
is on shaky ground. They start with the notion of some pre-determined growth rate that the economy “should achieve”, deduct trend labour force gains and productivity, and work out a gap in the labour pool that grows over time. However, the economy’s capacity to grow is determined by the labour supply rather than the opposite.

A clarion call for action

While Canada’s labour market is not dysfunctional, nor is the country headed for persistent labour market imbalances, a need for bold action to strengthen skills capacity in Canada is needed. As noted, a number of inherent weaknesses in the system are likely to limit the labour market’s ability to adjust to structural changes and hold back the economy’s potential to create jobs over the long run. In other words, while Canada is set to record rising employment levels over the next decade on a status-quo basis, it could do much better. And, in light of the prospects for marked slowdown in the rate of employment creation compared to the past 10 years, every tenth of a percentage point in added income growth is critical to ensuring healthy gains in living standards.

In this regard, we were pleased to see the focus on skills development in the 2013 round of budgets. Delaying appropriate actions until the challenge becomes a crisis is ill-advised and imprudent. There is too much at stake to adopt a wait-and-see approach. However, a more concerted action across not only the federal and provincial governments but also employers, employees and educators will be needed to provide Canada with a world-leading workforce for the 21st century. Examples of strategies which could mitigate skills mismatch and labour shortages, now and into the future, include:

- *Employer-led strategies* such as raising wages where required, promoting other types of incentives, implementing increasingly flexible work arrangements, and encouraging professional development training. The absence of recent wage pressures could be a sign that labour markets are not as tight as some believe or that many employers are turning to other options such as non-financial benefits or work arrangements that meet the desires of the workforce. Professional development training, both privately and publicly funded, is one area in Canada that has not gained much traction.
- *Federal and provincial governments* have attempted to overcome some of the current barriers to training. The Canada Job Grant is just one example. Recent



immigration reforms have been made to better match worker skills with labour market demands. In light of growing concerns that employers have been circumventing rules, the federal government is taking actions to improve its Temporary Foreign Worker program. While considerable challenge remains, provincial governments have been addressing some of the barriers surrounding labour mobility.

- *Workers* require an in-depth understanding of labour market conditions to make well-informed decisions. A new Job Bank attempts to be an online, one-stop shop in this regard. Better information is required on the nature of job vacancies and students should have clearer views of employment and income prospects by field of study. Greater concerted efforts put forth by all labour market participants are required to obtain gender workplace equality and to boost labour force participation rates of typically under-represented workers (e.g., women, Aboriginal, persons with disabilities).
- *Educators*, including post-secondary institutions, have recognized some of the shortcomings of the higher education system, including a lack of flexibility in altering programs depending on the demands of the marketplace. There have been some signs that change is

beginning to happen on this front. There has been a move to increase transferability of credits among universities and colleges and apprenticeship demand has been rising (although completions remain a challenge).

Bottom line

Our findings pour some cold water on perceptions that Canada's job market is deeply dysfunctional and currently facing a crisis with respect to skills. Our data test uncovers some evidence of tightness, but our analysis failed to provide a real smoking gun. While we find no evidence of an imminent crisis, Canada can do much better to improve the efficiency of its labour market. Greater labour market information would help convert perceptions and anecdote into reality and fact.

Despite significant gains in work effort in Canada, our productivity record over the last forty years has not been matched by other countries. As a consequence, Canada's GDP per capita has slipped several notches among other OECD countries. A more skilled workforce and efficient labour market is a vital component to achieving and sustaining improved productivity and economic growth.

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