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E-BRIEF

March 6, 2013

ECONOMIC GROWTH AND INNOVATION

Who Is Still Standing in Line? Addressing a Mismatch of Skills and Jobs in the Canadian Labour Market

by
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- The Canadian labour market suffered a severe blow during the last recession, with more than 430,000 persons losing their jobs and the unemployment rate reaching levels unseen since the latter half of the 1990s.
- Subsequently, the labour market has shown great resilience, and there are now 900,000 more Canadians employed since the beginning of the recovery. Important weaknesses remain, however: long-term and youth unemployment still stand at obstinately high levels – despite a recent growth in job vacancies.
- This E-Brief argues the best way to further support the Canadian labour market would be through policies that enhance labour mobility and emphasize skills training to help ensure unemployed Canadians have the right skill sets to integrate into the workforce.

The Canadian economy has weathered the last recession better than most, and there are now 470,000 more Canadians with jobs than prior to the recession.[1] A comparison of current labour market conditions with those of recent Canadian recessions suggests the market is almost "back to normal," although the unemployment rate has not returned to its pre-recession lows, and rates

The author would like to thank Craig R. Alexander, Paul Beaudry, Don Drummond, Stephen Gordon, Alexandre Laurin, Christopher Ragan, Daniel Schwanen, Jim Stanford, Benjamin Tal, and Stephen Tapp for helpful comments, and Ben Dachis for help with Labour Force Survey micro data files. The views expressed in this paper are those of the author, and responsibility for errors and omissions remains his.

1 As of January 2013.

remain high for younger workers and the long-term unemployed.[2] Overall, the Canadian labour market shows healthy demand; however, it faces structural problems encapsulated by the fact that many businesses are looking to hire, but not finding the right match. Accordingly, I recommend structural policies that would enhance labour market flexibility and help unemployed Canadians develop the right skill sets for workforce integration.

The Evidence: The Improving State of the Canadian Labour Market

Recessions are characterized by a sharp and sudden increase in the number of people being laid off, which increases the number of unemployed individuals looking for work.[3] While employment typically picks up at the end of a recession, it takes time to absorb the now larger pool of unemployed. Following the 1981 and 1990 recessions, after large increases in the jobless ranks, it took approximately seven years for the unemployment rate to return to its pre-recession level (Figure 1a).[4]

This time around, the rise in the unemployment rate was much more modest, and it has been declining steadily since the recovery began. As of January 2013, it stands at 7 percent, three-and-a-half years after the end of the last recession; although the unemployment rate is above its pre-recession low of 5.9 percent, it is back to its long-term trend as shown in Figure 1a. Further, the number of recently unemployed – those unemployed within the last 27 weeks – is down markedly. This decline is directly related to the fact that businesses are simply laying off fewer people. Layoffs, as a percentage of the labour force, have been declining since the end of the recession and are approaching levels seen just before it began (Figure 1b). The implication is that since the pool of unemployed is being replenished at a modest rate (with new layoffs), the growth in new hires, even if it remains at current levels, will help lift net employment and bring down unemployment over time.

On the other hand, there has been a marked increase in the number of individuals who have been persistently unemployed. The increase in the number of long-term unemployed (27 weeks and up) is modest compared to the last two recessions, but it has remained at elevated levels compared to its recent lows (Figure 1a). Hence, there are still a large number of individuals who have persistent difficulties rejoining the workforce, presumably because their skills are not well suited to the new economic environment.

Two further indicators are often brought up as evidence of remaining labour market weaknesses: the high percentage of Canadians working part-time, potentially reflecting them being underemployed, and high youth unemployment.[5] While it is true that the percentage of employees working part-time is high according to historical standards, the proportion of those that are in this situation for involuntary reasons is much lower and not far from levels seen prior to the recession (Figure 2).

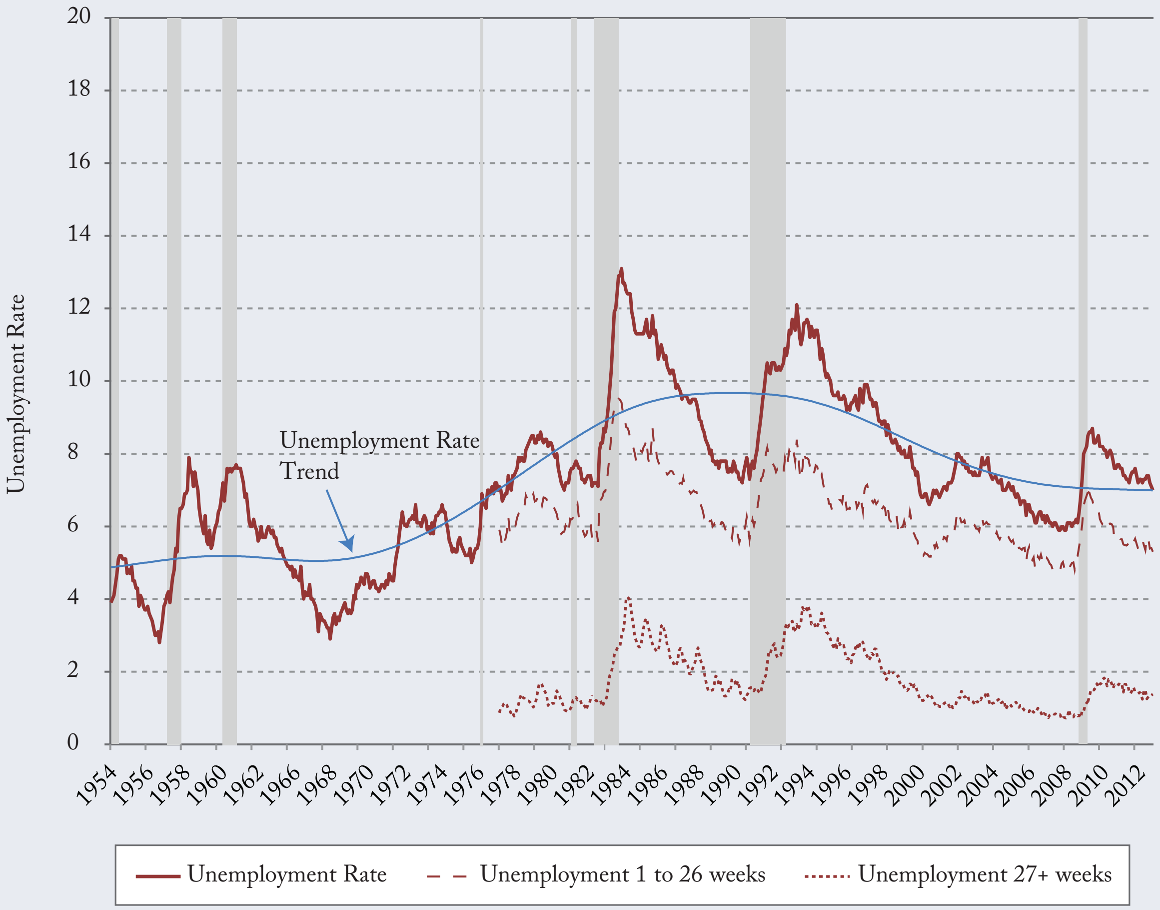
2 The recessions that began in 1990, 1981, and 1954, as well as the latest one, have all been designated as category 4 recessions, on a scale from 1 to 5, by the C.D. Howe Institute Business Cycle Council. A category 4 recession is described as a period of substantial decline in both gross domestic product (GDP) and employment, usually lasting for about a year or longer.

3 Normal growth in the labour force (i.e., employed and unemployed) during the downturn also adds to the pool of unemployed.

4 The unemployment rate corresponds to the number unemployed as a percentage of the labour force (employed and unemployed). Monthly Labour Force Survey data are available starting in January 1954. Data on the level of monthly unemployment prior to the beginning of the recession that started on August 1953 are therefore not available.

5 See, for instance: http://www.theglobeandmail.com/report-on-business/economy/economy-lab/four-years-after-lehman-are-you-better-off/article4544960/.

Figure1a: Unemployed According to Duration (as a percentage of the labour force)

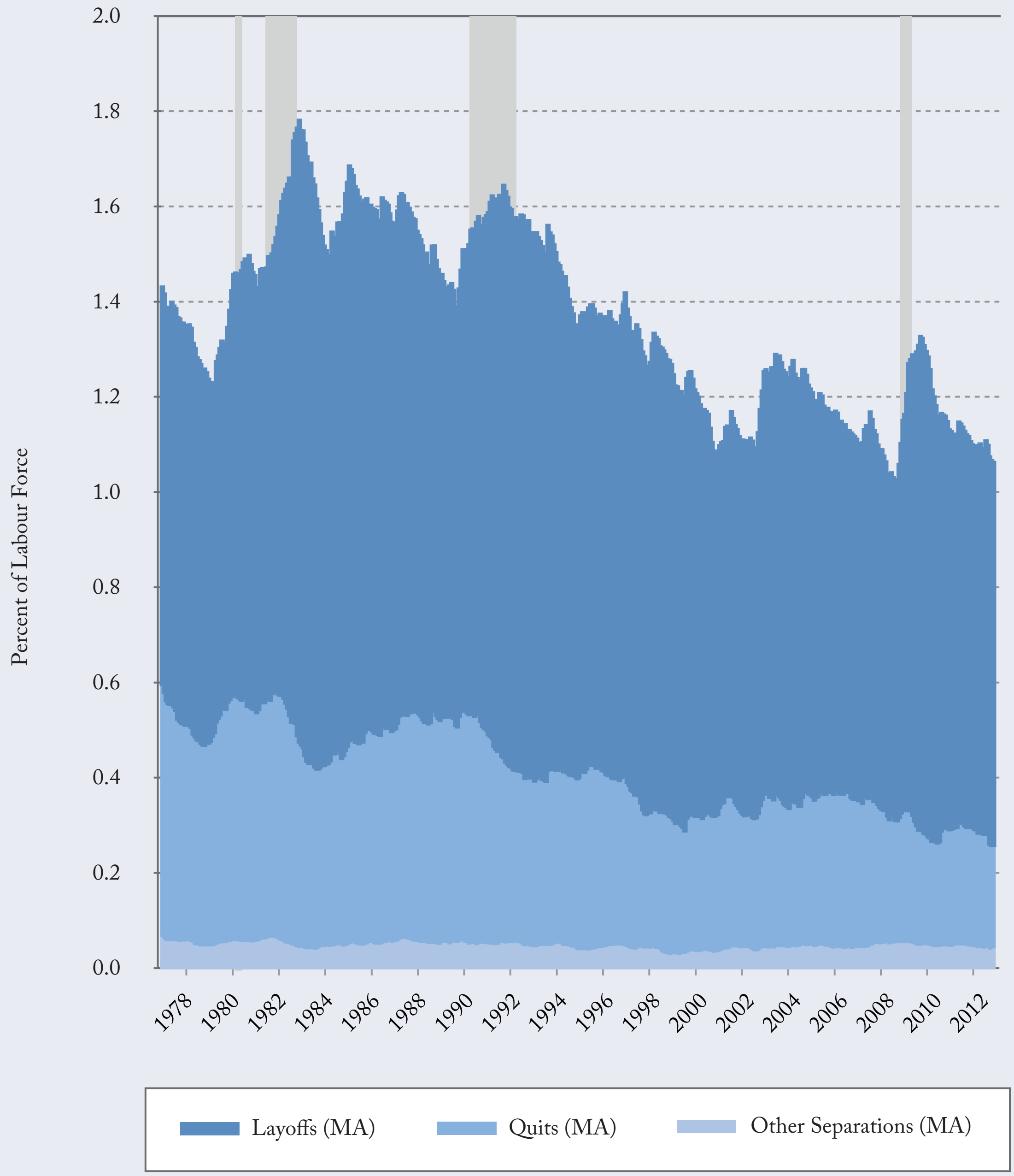


Note: Shaded areas represent recessions (Cross and Bergevin 2012). The unemployment rate and the number of unemployed for 1 to 26 weeks as a percentage of the labour force are seasonally adjusted. The latter series was seasonally adjusted using the U.S. Census Bureau's X-12-ARIMA Seasonal Adjustment Program, while the former is from CANSIM table 282-0087. For the unemployment rate series, there are important breaks in the data due to methodological changes in 1976 and 1966, and the different periods are not strictly comparable with each other. I estimate the unemployment rate trend using the Hodrick-Prescott filter.

Sources: Author's calculations from Statistics Canada, CANSIM.

Youth unemployment appears more problematic. Younger Canadians suffer disproportionally more from the impacts of recessions, with those in the 15- to 24-year-old age group historically bearing the brunt of increases in unemployment rates (Figure 2). This time around, the 15- to 19-year-old age category has been particularly badly hit. It is the only age category that has yet to recoup all of the job losses from the last recession, and is saddled with an unemployment rate hovering around 20 percent. The 20- to 24-year-old category has recouped jobs lost, although its unemployment rate has seen a more modest decline since the beginning of the recovery

Figure1b: Layoffs, Quits, and Other Separations (as a percentage of the labour force)



Note: Shaded areas represent recessions (Cross and Bergevin 2012). The layoffs, quits and other separations correspond to a 12-month moving average.

Sources: Author's calculations from Statistics Canada, Labour Force Survey micro data files.

compared to older categories.[6] The plight of the youth is also apparent in the number of them holding jobs – the youth employment rate has seen a marked decline, while the same rate for those aged 25 plus has seen a modest decline (Figure 3).[7]

The Prescription: A More Flexible Labour Market

The overall picture painted above suggests a normalization of the Canadian labour market. Nonetheless, long-term and youth unemployment stand out as important remaining labour market difficulties. What, if anything, can governments and monetary policy do to better support the labour market and help address remaining weaknesses? Based on the foregoing discussion, my assessment is that structural policies would be the most effective approach. While there are signs of lack of demand for labour – notably for younger Canadians – that assessment does not apply generally to the labour market, and therefore does not invite further cyclical policies.

During the worst of the recession, governments and the Bank of Canada appropriately applied cyclical policies to help alleviate slow or negative economic growth, by spending more than their revenues and by keeping monetary policy very accommodative. We are now getting to the end of that road. Governments are cash-strapped and monetary policy is already very accommodative, and interest rates need to gradually return to more normal levels. In any event, fiscal and monetary policies would be too-blunt instruments to address youth employment, which does reflect some cyclical factors but represents a relatively small part of the overall labour market.[8] Further, problems associated with long-term unemployment, such as loss of skills, are not best addressed by simply trying to boost labour demand, and require some longer-term, structural solutions.

The extent of structural problems in the Canadian labour market is easily summarized by looking at job vacancies and the number of unemployed by province and by sector (see Appendix Figure A-1 and A-2).[9] First, and not surprisingly, there are more jobs available per unemployed person in western provinces than in the rest of the country. Second, there are large differences between various sectors of the economy. Sectors of the service economy associated with knowledge workers, such as healthcare or professional services, and sectors such as oil and gas that require technical skills, have the highest vacancy-to-unemployment ratio, indicating a high level of demand for labour in these sectors. These facts point towards a mismatch between labour supply and demand.[10]

Hence, policy responses should be geared towards helping workers acquire better skills and ensuring that those match the needs of employers. The solutions required have long been advocated but not fully acted on. To get unemployed Canadians back to work:

6 Of perhaps little comfort for them, members of this age cohort are doing markedly better than their counterparts during the previous two recessions.

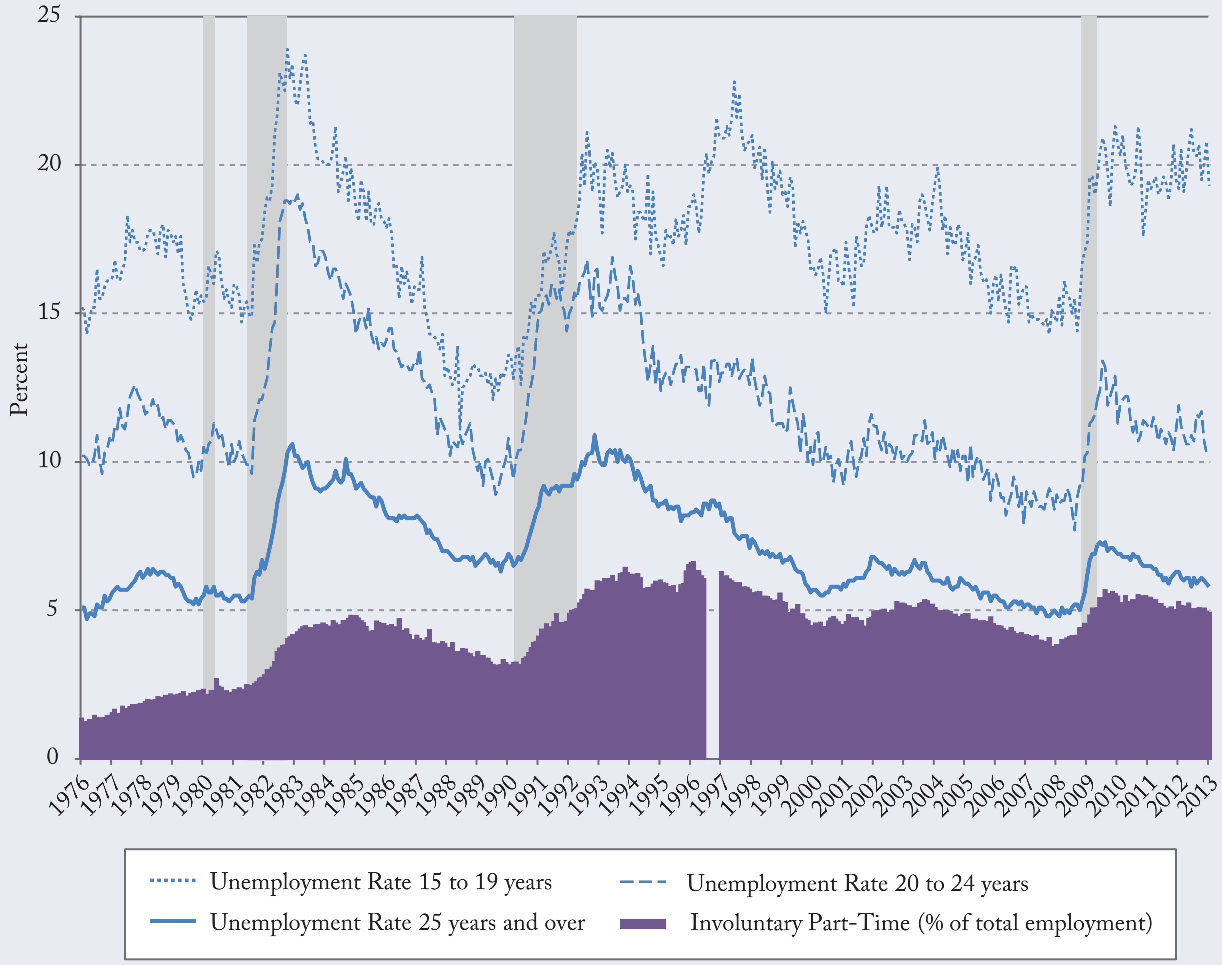
7 The employment rate corresponds to the number of employed persons as a percentage of the population for a given age group.

8 The number of employed and unemployed individuals in the 15- to 19-year-old category represents approximately 5 percent of the total labour force (as of January 2013).

9 The sector of an unemployed person relates to his or her last job, if that job was held in the past year. Vacancies data are only available starting in January 2011 when the following two questions were added to the monthly Business Payrolls Survey (BPS): Did you have any vacant positions on the last business day of the month, and how many?

10 Further, the number of new job postings has been growing faster than new hiring, suggesting at least some employers are having difficulties filling those positions.

Figure 2: Unemployment Rate by Age, and Involuntary Part-Time Employment

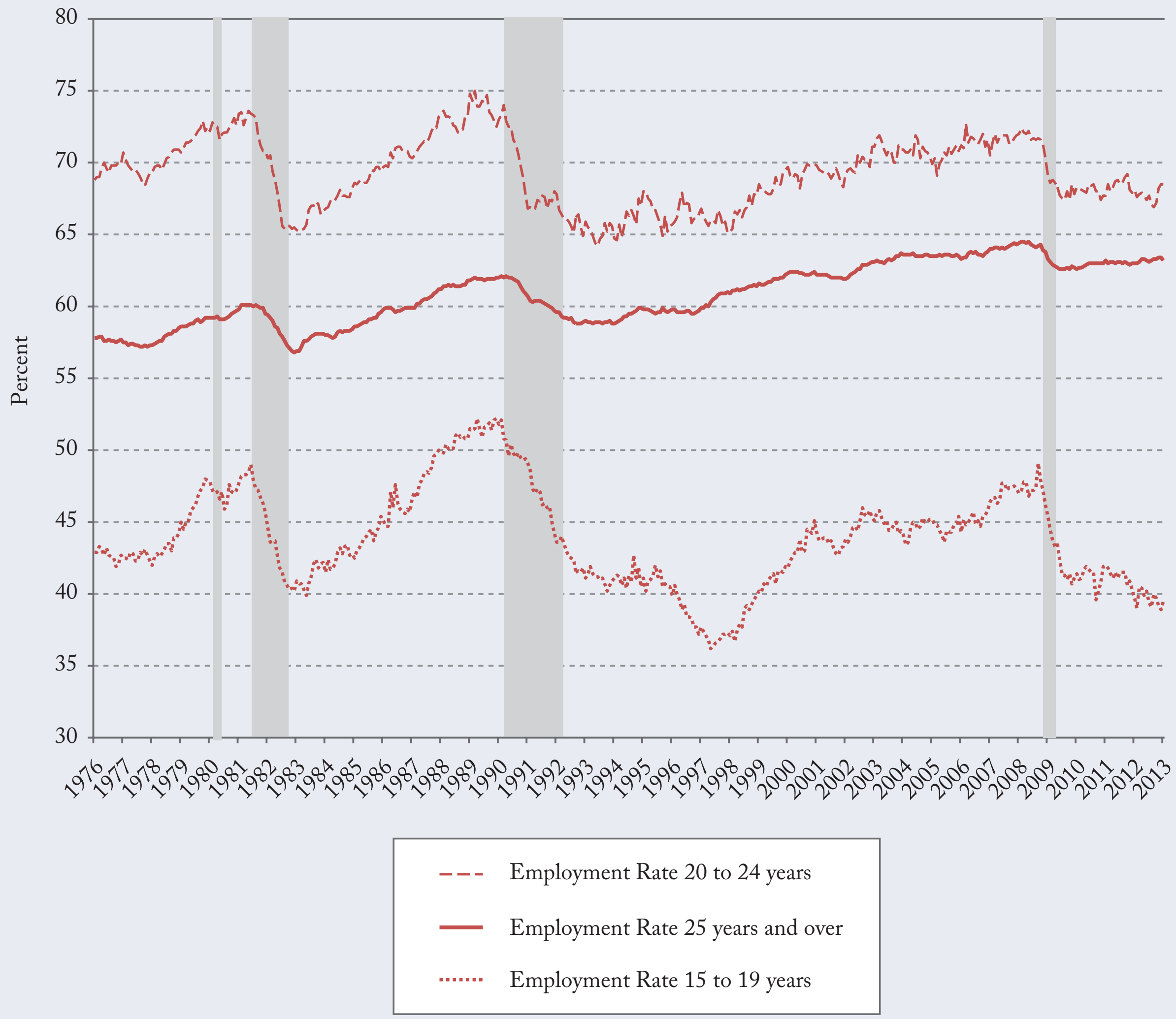


Note: Shaded areas represent recessions (Cross and Bergevin 2012). The unemployment rates are seasonally adjusted, as reported by Statistics Canada. The involuntary part-time series was seasonally-adjusted using the U.S. Census Bureau's X-12-ARIMA Seasonal Adjustment Program. There is a break in the involuntary part-time series on January 1997 due to methodological changes, making a direct comparison problematic; for this reason, the transition period from June 1996 to January 1997 is not shown here.

Sources: Author's calculations from Statistics Canada, CANSIM and Labour Force Survey micro data files.

- Education and skills training should remain a key priority for the federal and provincial governments, with particular emphasis on youth and the long-term unemployed. Provincial governments should also loosen entry restrictions into skilled trades (Brydon and Dachis, Forthcoming).
- Federal and provincial governments should improve data and information on Canada's labour market in order to improve the matching of people and jobs. Developing gross labour flows data can support better labour policy planning. Better education data can help establish links between programs of study and employment subsequently obtained and the development of more labour- demand driven educational programs (Advisory Panel on Labour Market Information 2009).

Figure 3: Employment Rate by Age



Note: Shaded areas represent recessions (Cross and Bergevin 2012). The employment rates are seasonally adjusted, as reported by Statistics Canada.

Sources: Author's calculations from Statistics Canada, CANSIM.

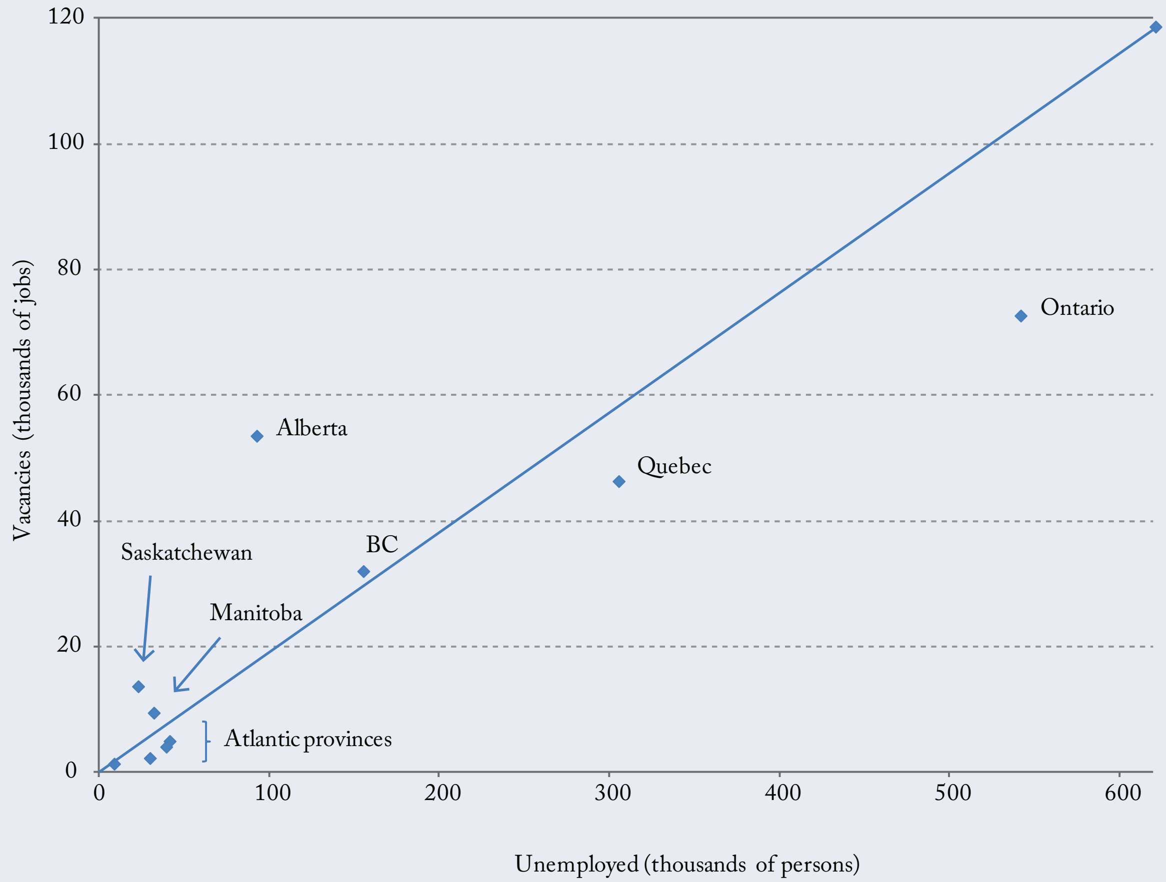
- Federal and provincial governments should better enable inter-provincial labour market mobility. Professional bodies have tended to resist mutual recognition of certifications, which impacts the flow of skills to where they are needed (Knox 2010). While efforts such as the Agreement on Internal Trade and other interprovincial agreements have improved matters, much work remains. The federal government needs to take leadership. This could involve addressing potentially anti-competitive activities of professional bodies that restrict entry into professions (C.D. Howe Institute Competition Policy Council 2012).

Conclusion

Despite some remaining soft spots, the Canadian labour market is almost back to normal; demand for labour has picked up. There are, however, important structural impediments to Canadian businesses finding employees, and Canadians finding jobs. A more flexible Canadian labour market – not further expansionary fiscal and monetary policies – will help more Canadians find work.

Appendix:

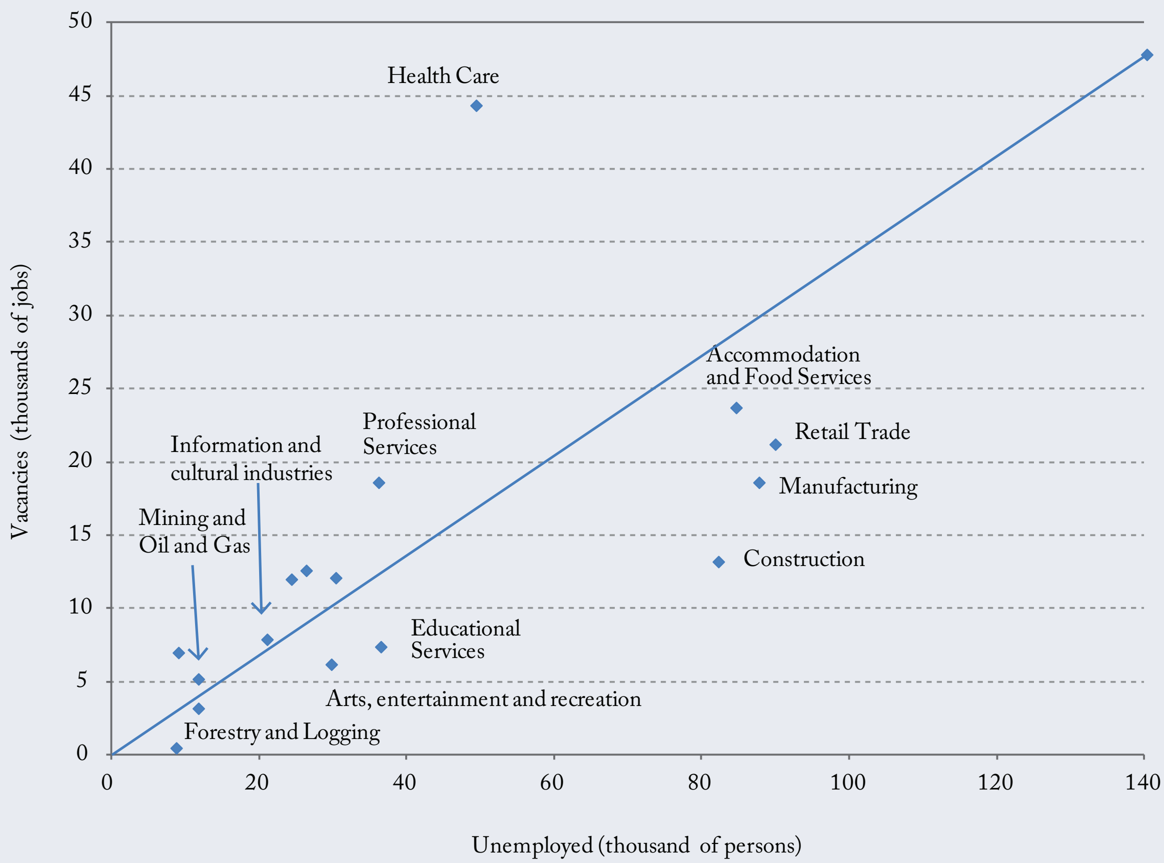
Appendix Figure A-1: Job Vacancies and Number of Unemployed Per Province, November 2012 (3-Month Average)



Note: The straight line connects the intercept to the data point that corresponds to the entire Canadian economy. Data points that sit exactly on that line are in perfect alignment with the entire economy, meaning that they have the same vacancies to unemployment ratio. Data points that sit above the line have a higher ratio, while those that sit below have a lower ratio (Lazear and Spletzer 2012).

Source: Statistics Canada.

Appendix Figure A-2: Job Vacancies and Number of Unemployed Per Sector, November 2012 (3-Month Average)



Note: The straight line connects the intercept to the data point that corresponds to the entire Canadian economy. Data points that sit exactly on that line are in perfect alignment with the entire economy, meaning that they have the same vacancies to unemployment ratio. Data points that sit above the line have a higher ratio, while those that sit below have a lower ratio (Lazear and Spletzer 2012).

Source: Statistics Canada.

Appendix Box A: Flow versus Stock Analysis of the Labour Market

The employment and unemployment numbers that are issued by Statistics Canada and often relayed by the press are net as opposed to gross concepts and are stock rather than flow measures. For instance, when Statistics Canada reports a gain of 20,000 in employment, the number represents the difference between the total number of individuals that were hired and the total number of individuals who left their jobs, for whatever reasons, during a given time period. Looking at the gross data can help get a deeper understanding of underlying labour market trends. Unfortunately, Statistics Canada does not report on total hires or job leavers, as do some other agencies such as the US Bureau of Labor Statistics.

Nonetheless, Statistics Canada's Labour Force Survey micro data files can be used to approximate total hires or job leavers. In this E-Brief, to generate the layoffs, quits and other separation series, persons that were not employed in a given month were categorized according to their responses to the Labour Force Survey as to why they left their jobs. Only those that have not held a job for less than 2 months were considered. Prior to 1997, layoffs correspond to those that have responded "laid off"; quits correspond to "other reasons," "personal or family responsibilities," and "going to school"; and other separations correspond to "own illness or disability" and "retired." From 1997 onwards, layoffs correspond to "lost job, end of seasonal job," "lost job, end of temporary or casual," "lost job, company moved or out of business," "lost job, business conditions," and "lost job, dismissal or other reasons"; quits correspond to "left job, other," "left job, caring for own children," "left job, pregnancy," "left job, other personal or family responsibilities,", "left job, going to school," "left job, dissatisfied," and "left job, business sold or closed down"; and other separations correspond to "left job, own illness or disability" and "left job, retired." All computations on these micro data were prepared by the C.D. Howe Institute and the responsibility for the use and interpretation of these data is entirely the author's.

The drawback of this approach is that it fails to capture job leavers that would have found another job before responding to the Labour Force Survey in a given month. In aggregate, the data we present here should nonetheless give a good indication of how layoffs, quits and other separation levels vary through time.

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This E-Brief is a publication of the C.D. Howe Institute.

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