



# Youth Unemployment in Canada: Challenging Conventional Thinking?

By the Certified General  
Accountants Association of Canada



We see more than numbers.

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## Foreword

As we reflect on what has transpired over recent years and the current state of the global economy, we are reminded of the prosperity and economic security that Canadians have come to enjoy. That's not to say that we have not had our challenges – in fact CGA-Canada has conducted research and has publicly spoken up on many of them. Whether highlighting the vulnerability of defined-benefit pension plans as early as 2004, cautioning against distending consumer indebtedness in 2007, or scorning the domestic prospect of occupational fraud not so long ago against an abundant backdrop of other research works, we appreciate full well that Canadians continue to enjoy notable financial stability and economic prospect.

Making its way onto our research radar in 2005, by virtue of our paper that we produced entitled “Growing Up: The Social and Economic Implications of an Aging Population”, was a notion that we termed as intergenerational equity. In short, it was recognized at that time that while policy would have to adapt to our aging demographic, we needed to remain mindful of our younger cohorts who are likewise owed the protections, rights, and opportunities that Canada has to offer. Over the years, we have remained curious around the opportunities for our younger people while intent also to advocate for social behaviour that considers fairly the interests of a collective society.

This interest in intergenerational equity in fact served to motivate the paper before you today. That is, fully aware that the unemployment levels of younger workers are typically above the national average and receptive to a litany of reasonable explanations, we set out to better understand if younger workers might in fact be disproportionately vulnerable when compared to other more mature, or older, workers. What we have learned is that the young worker scenario is much more encouraging than one might expect.

Yes, reported unemployment rates are higher than with other age groups. On the positive side however we see that the peak youth unemployment rate experienced during the most recent recession was noticeably lower than that of previous recessions, that youth unemployment is relatively short-lived as compared to other workers, that a growing majority of youth identified as unemployed are in transitory state between school and labour market, that the presence of older workers does not typically exacerbate youth unemployment, and that the quality of jobs for young workers has improved during the economic recovery; with the largest growth in higher-wage occupations accruing to our

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youngest workers – while mature workers experienced a modest downturn in higher-wage occupations. Moreover, with retirement on the horizon for many Canadians, opportunity should not be as scarce for younger workers as it may have been for others before them.

So while we do have areas we can work on for all workers, we find ourselves relatively satisfied that younger workers are getting a fair shake and that perhaps contrary to popular belief, there is little evidence to suggest that baby boomers are blocking the way of their younger cohorts.

Given our findings around *underemployment* rather than *unemployment*, it could be contended that it is a scarcity of opportunity within all worker groups rather than obstructions caused by or between age groupings. The fact of the matter is that the marketplace has long been competitive and that advancements in technology and globalization will ensure that this remains unchanged.

Going forward, the opportunity for Canada will be to define the optimal levels of educational attainment and vocational training, to improve the mix of jobs supported by the Canadian economy, and to integrate the causality of underemployment in our individual career pursuits. In the meantime, we might benefit from perhaps modifying perceptions and questionable contentions.

*Anthony Ariganello, CPA (Delaware), FCGA  
President and Chief Executive Officer  
The Certified General Accountants Association of Canada*

Fuelled in part by fears that burdens of the recent recession have disproportionately fallen on youth, the issue of youth unemployment has rekindled significant unease with different levels of government, communities and the general public. In addition to the most common consequences of unemployment such as financial hardship and emotional distress, joblessness may also result in the erosion of an individual's skills and knowledge and increase uncertainty of future labour market prospects. For jobless youth, this aspect of unemployment may particularly be 'scarring' as skills and knowledge gained through the educational system may not have appropriate opportunity to crystallize into professional ability. At the aggregated economic level, such an erosion of skills may disadvantage business in their ability to expand and compete; particularly in an environment of increasing global competition.

However, the erosion of skills that may occur due to unemployment is only part of a broader range of factors that may impact the quality of the workforce. Underemployment may likewise negatively affect quality of labour as it does not allow individuals to utilize the full range of skills possessed. Contrary to the highly visible issue of youth unemployment, underemployment is seldom spoken of. Recognizing the importance of both of these phenomena, CGA-Canada sees it timely to critically examine the level of hardship associated with youth unemployment and the presence of youth underemployment in the Canadian economy. As the following pages reveal, it can be reasonably contended that:

***The dynamic of youth<sup>1</sup> unemployment demonstrates a number of positive trends;*** revealing themselves through the following facts:

***The youth unemployment rate trends downwards while expected demographic changes may further ease youth joblessness.*** The peak level of youth unemployment (15.2%) registered during the most recent recession was noticeably below that experienced in previous recessions when the youth unemployment rate swelled to 19.2% and 17.2% in 1983 and 1992 respectively. The magnitude of the surge in unemployment was also much more trivial for youth engaged in the labour market during the 2009 recession compared to those who were in the labour force during the two recessions prior. Specifically, the youth unemployment rate increased by only one third (from 11.6% to 15.2%) in 2009 but surged by more than

<sup>1</sup> As further detailed in Section 3, youth is comprised of individuals 15 to 24 years of age; young workers fall within the 25 to 29 years of age group, mature workers are those aged 30 to 54, whereas older workers are those 55 years of age and over.

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one half in the 1980s and 1990s. The projected decline in the youth and young worker population which is expected to gradually unfold over the next 20 years may further improve the unemployment rate of youth.

**Youth unemployment is largely short-lived.** In 2011, nearly half (46.8%) of unemployed youth were able to find a job within 1 to 4 weeks after the beginning of an unemployment spell; among mature workers, only 27.0% enjoyed a similar positive outcome. In 2011, the average duration of unemployment experienced by youth did not exceed 11 weeks and was in fact twice shorter than that endured by mature workers. Youth likewise fared much better than other age groups in terms of long-term unemployment – only 5.4% of unemployed youth endured an unemployment status for one year or more; whereas young workers were twice more likely and mature workers three times more likely to experience such long-term unemployment over the 2011 period.

**For the majority of youth, unemployment is a transitory state between school and the labour market.** The prevailing activity of youth prior to unemployment was unrelated to the labour market as some 68.1% of unemployed youths did not participate in the labour force prior to experiencing joblessness. This differed markedly from the situation some 30 years ago when 55.5% of youth job searchers worked prior to becoming unemployed. Those attending school prior to unemployment represented 57.4% of all unemployed youth in 2011; a proportion more than twice higher compared to that observed in 1980. In turn, youth that became unemployed as a result of involuntary job loss accounted for only 14.8% of all unemployed youth; this proportion decreased by more than two fold over the past decades and was not seriously affected by the most recent recession.

**Older workers do not evidently exacerbate youth unemployment.** The overlap in occupational preferences of youth and older workers is present in only two occupational groups – clerical occupations and sales and service occupations. The level of youth unemployment in these occupations does not suggest a crowding out of youth by older workers: in 2011, the youth unemployment rate in these occupations was noticeably below the average and close to the levels observed prior to the most recent recession. Likewise, occupations where employment of older workers increases at a particularly strong pace do not register an increased rate of youth unemployment. Moreover, the growth in employment of older workers does not exceed the growth in this group's population. As such, what may seem to be an assertive expansion of the older workers' presence in the labour market is, in fact, a mere reflection of demographic changes.

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**The quality of youth jobs has been improving during the economic recovery.** The job losses of youth during the recent recession were fairly equally distributed among lower, middle, and higher-wage occupations as each group's participation shrank by some 8% between October 2008 and October 2009. In recovery, youth's presence in higher-wage occupations interestingly grew at a much faster rate (19.2%) than those in middle and lower-wage occupations adding some 18,800 high-quality jobs between October 2009 and October 2011. Young workers also enjoyed favourable changes in the quality of jobs: this group increased its presence in higher-wage occupations by 5.1% between October 2008 and October 2009, and by another 2.3% between October 2009 and October 2011. For mature workers, the number employed in higher-wage occupations shrank by 0.7% in the aftermath of the recession. Wages earned by youth workers also present a positive trend. During the 2004-2008 period for example, the real median hourly wage of youth working full-time increased at an annual average rate of 3.2% – a rate three times higher than the growth rate experienced by young and mature workers. In 2009-2011, when real wages of most workers declined, youth continued to enjoy a 0.7% average annual increase in the real median hourly wage.

***Underemployment of youth in Canada exists and is apparent through both underutilization of skills and labour; however, all age groups are susceptible to underemployment.*** Specifically:

***The capacity of the economy to tap into the enlarged pool of better educated youth does not keep up with the pace of improvement in the levels of educational attainment.*** The proportion of the youth labour force whose level of educational attainment does not exceed high school declined from 61.1% in 1990 to 51.1% in 2011; among young and mature workers the magnitude of the decline was three times greater than that registered among youth. However, despite the declining proportion of youth with lower levels of education, the proportion of youth employed in lower-skilled occupations remained unchanged between 1990 and 2011. For young and mature workers, the improvements in the quality of jobs were likewise disproportionately small compared to the magnitude of positive developments in the levels of their education. Moreover, the gap in unemployment rates experienced by youth with post-secondary certificates or diplomas and youth with university degrees has diminished significantly over the past two decades.

***Underutilization of youth skills in specific occupations is common and extensive.*** Some 24.6% of all youth holding a university degree who were continuously employed full-time during 2005 were effectively

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underutilized as they were employed in occupations where employment requirements did not call for university education. This situation was particularly prevalent among youth holding a baccalaureate degree; however, about one in ten youth workers holding a graduate degree were likewise employed in occupations not requiring a university degree. Underutilization of youth skills was particularly prevalent in sales and service occupations, and clerical occupations; however, it was also noticeable in some other occupational groups. Skills of core-working age individuals (ages 25 to 44) were likewise heavily underutilized.

*The incidence of underutilization of youth labour has increased; however, the rise in the numbers of discouraged workers did not play an important role.* During the most recent recession, incidence of involuntary part-time work increased among workers in all age groups; however, youth did experience the highest rate of involuntary part-time employment. In 2011, the economy was underutilizing the ability and willingness to work of some 4.0% of employed youth; in 2007, this proportion was almost twice smaller and stood at 2.2%. The proportion of discouraged youth workers went up by nearly two fold in the past 3 years; however, they continued to account for an insignificant proportion (0.21%) of the overall youth labour force in 2011.

***Causes of underemployment are not well understood;*** a number of theoretical inferences suggest that underemployment may be induced by changes in supply and demand of workers having different levels of education, technological progress, and heterogeneity of workers. However, an extensive analysis of causes and consequences of underemployment in the Canadian context has not been undertaken. Concurrently, and consequentially, an information gap exists regarding the dynamic of underemployment over time. A number of factors may be thought of as indirectly contributing to underemployment such as the overall structure of the Canadian economy and industries, youth migration, and the efficiency of labour market information.

Based on these findings, it is reasonable to reach certain conclusions. Firstly, although youth unemployment is relatively high – it does not represent an alarming event. Secondly, the conjecture that youth is disadvantaged within the labour market may not always be correct. Thirdly, while underemployment represents a significant issue for youth, it manifests itself through both underutilization of skills and underutilization of labour; however, the challenge of underemployment is not unique to youth but is experienced by workers in all age groups. And lastly, while the symptoms of underemployment are endured by individuals, their consequences may also spill over and affect businesses and the economy as a whole.

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It is fairly customary to refer to the 2009 recession as the “Great Recession” due to the depth of the underlying financial crisis and the global nature of the spill-over of the downturn. In Canada, however, economic activity bounced back relatively swiftly after only three quarters of negative growth in real GDP; with higher commodity prices and meaningful government stimulus packages playing an important supportive role. The hardship endured by the Canadian labour market was likewise much more moderate compared to those experienced by workers in the aftermath of the 1980s and 1990s recessions. Nevertheless, the issue of youth unemployment continues to attract significant attention from government, communities and the general public powered by reflections that the burden of the recent recession may have disproportionately fallen on Canada’s youth. Naturally, one of the most apparent reasons resides in the persistently high unemployment rate among youth; this rate exceeded the national average by a factor of two in July 2012 for the first time in the past 30 years.

Unemployment, particularly if it persists for an extended period of time, may impact an individual’s life in a number of different ways; the most obvious ones usually associated with sub-optimal economic performance, financial hardship and emotional distress. However, unemployment may also cause an erosion of skills (or result in a loss of the opportunity to develop same) and suppress future employment prospects of the individual as his or her human capital becomes less valuable and useful for employers. For jobless youth, this aspect of unemployment may be particularly ‘scarring’ as skills and knowledge gained through the educational system may not be allowed to morph into optimum professional ability. Aggregated at the collective level, the individual consequences of unemployment will tend to impair business advantage; predominantly in the area of a firm’s ability to expand and to compete. Two factors – increasing global competition and changing characteristics of the production process – make the erosion of skills and quality of labour particularly undesirable and damaging to the prospect of maintaining a competitive edge in today’s economic environment.

The current economic outlook is increasingly characterized by a widespread slowdown in activity across advanced and emerging economies. It has become clear that the recovery of the U.S. economy is much weaker and may take longer than initially contemplated whereas acute fiscal and financial strains in Europe have lassoed European economies back into recession and continue to raise the fear of severe dislocations in global markets. The growth in the major

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**Canada's labour market policies have been fairly sensitive and responsive to the need to maintain and upgrade skills of those unemployed and those facing barriers to employment**

emerging economies which served as a driving force of economic recovery in many developed countries also decelerates from previously-rapid rates and does so more quickly than expected. In this uncertain global environment, many countries face weaker external demand and the challenges of rebalancing towards domestic sources of growth. The increasing global competition puts elevated pressure on business to be proactive in process and product innovation, and to assertively seek new markets. Naturally, quality of labour is one of the decisive elements that enable firms to succeed.

Globalisation and advances in communications and computing technologies have dramatically changed the nature of production and demand for labour. The costs of coordination across stages of production have declined allowing businesses to distribute production processes across different locations and shifting the nature of competitive advantage towards stages of production rather than specific industries.<sup>2</sup> The increasingly borderless business environment diminishes the importance of geographical factors in the allocation decisions of firms as long as those are propelled by cost curtailment and profit maximization. For the nation though, the stages of productivity domestically involved in are highly important as those activities dictate quality of jobs, level of income, and population well-being. Naturally, quality of labour is one of the key influencing factors in a firm's decisions regarding the locations of production processes.

Recognizing the importance of skills in a knowledge-based economy, Canada's labour market policies have been fairly sensitive and responsive to the need to maintain and upgrade skills of those unemployed and those facing barriers to employment. The measures currently in place represent a fair balance between those providing an effective social safety net through income replacement, and those that are more actively aiming at reinforcing labour market flexibility and employability through, for instance, improving labour market information and job matching, job-related training and job search assistance. An effort is also made to address the specific challenges faced by youth; the Youth Employment Strategy (YES) launched by the federal government in 1997 is probably one of the key programs designed to help youth obtain the work experience, knowledge, skills and information necessary to transition from school to employment.

However, the erosion of skills that may occur due to unemployment is only part of a broader range of factors that may impact the quality of the workforce. Underemployment – a situation in which an individual is employed, but not in

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2 Bank of Canada (2012). *Globalisation, Financial Stability and Employment*, Remarks by Mark Carney, Governor of the Bank of Canada, presented to the Canadian Auto Workers (CAW), Toronto, August 22, 2012.

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the desired capacity, whether in terms of the level of skills and experience, or hours of work – may likewise negatively affect quality of labour as it does not facilitate utilization of the full range of skills possessed. The main difference between unemployment and underemployment relates not so much to the degree of skills erosion, but rather to the awareness of society regarding the erosion process. The unemployment rate is a highly visible, frequently reported economic indicator attracting extensive media coverage and policy attention and is relied upon in the analysis of a variety of economic and social trends. Conversely, such a notion as “underemployment rate” does not typically exist and the consequences of underemployment often remain undetected by the policy radar.<sup>3</sup> For youth, the consequences of underemployment may be particularly serious as underutilization of skills may aggravate the mismatch between skills obtained through the educational system and those accessible or gained through work experience; which, in turn, may increase difficulties in the job search, and lead to dwindling enthusiasm and attitude towards one’s career.

Even in a most prosperous economy, a certain level of unemployment will always be present; economists denote that as a “natural rate” which reflects the minimum level of unemployment in an economy operating at full capacity and is primarily formed by voluntary transitioning of individuals between jobs. Underemployment, in turn, does not seem to be viewed as a natural phenomenon. Moreover, the presence of underemployment would be particularly irrational in an economy experiencing labour shortage: according to some observers, this may well be the case in Canada as the aging of the population is expected to create a demographic shift by inducing large cohorts of baby boomers to exit the labour market.

Recognizing the importance of the issue of youth unemployment and underemployment, CGA-Canada sees it timely to critically examine the level of hardship associated with youth unemployment and the presence of youth underemployment in the Canadian economy. In the following text, we begin with the analysis of recent trends in youth unemployment comparing them with those experienced by workers in other age groups as well as those observed during the economic downturns of the 1980s and 1990s. We then examine the extent of youth underemployment as it manifests through underutilization of skills and labour. This is followed by a discussion of the main causes and consequences of underemployment, as well as factors that may have a dual capacity of exacerbating but also alleviating underemployment. We conclude by highlighting the most salient aspects of our findings, along with some practical recommendations.

**Unemployment but also underemployment may erode quality of labour; the main difference between the two relates to the awareness of society regarding the erosion process**

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<sup>3</sup> It should be noted that Statistic Canada produces supplementary measures of unemployment (i.e. R5 to R8) which reflect, in part, so-called ‘visible’ underemployment; however, these measures are not seen as key indicators and remain fairly unknown to the public at large.



## Youth Unemployment – A Closer Look Reveals a Number of Positive Trends

Canada's economic performance during the most recent recession and recovery has been strong relative to other developed countries; similarly, the labour market has performed fairly well with the unemployment rate declining to 7.3% in August 2012 from its recent high of 8.7% in the summer of 2009.<sup>4</sup> The underlying quality of this improvement is also worth noting: in the aftermath of the recession, labour market developments were primarily led by the private sector which expanded employment at a faster pace than the public sector. Firms boosted their labour input primarily through full-time employment whereas the increase in part-time jobs contributed only modestly to the overall employment growth. Moreover, the existing uncertainty did not negatively impact labour market decisions of firms to the extent it has in past recessions when growth expansion was largely achieved through an increased number of part-time employees.

The successful recovery of the labour market was enabled by a number of factors. The expansion of domestic demand has been sturdy: low interest rates stimulated demand for housing and consumer durables, creating demand for labour in construction, real estate, retail and wholesale trades as well as in some manufacturing industries. Moreover, the restructuring of major industries such as manufacturing, construction and finance have not been deep or prolonged. The expansionary policy response of the federal and provincial governments implemented in 2009 and 2010 have also played a noticeable role in the employment recovery with combined federal and provincial program expenditures increasing at an annual average rate of 7.1% in 2009 and 2010.

Although the growth in wages observed in recent years may be disappointing for those employed or seeking a job (the real median hourly wage rate declined by 2.8% in 2011 after showing a 2.2% average annual growth in 2008-2010<sup>5</sup>), this dynamic was favourable for employment growth – it provided incentives for firms to use labour to accommodate output growth as opposed to substituting labour with capital. The sluggish growth in wages may also have subdued the recovery in the labour force participation rate<sup>6</sup> which now hovers around 98% of the pre-recession levels.

Canada's labour market has performed fairly well during the economic recovery with the unemployment rate declining to 7.3% in August 2012 from its recent high of 8.7% in the summer of 2009

4 CANSIM Table 282-0087.

5 Based on CANSIM Tables 282-0070 and 326-0021, CGA-Canada calculations.

6 Labour force participation rate is defined as the number of labour force participants expressed as a percentage of the working age population.

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**It is routinely supposed that recent positive labour market developments did not benefit youth to the extent they did their older counterparts; however, a more detailed analysis may serve to alter this view**

It is routinely supposed that the mentioned labour market developments did not benefit youth to the extent they did their older counterparts; however, a more detailed analysis of a number of labour market indicators may serve to alter this view. As the paragraphs that follow impart, the labour market hardship endured by youth during the most recent recession and recovery was more moderate than that experienced by youth in the past recession. Moreover, on some accounts, youth fared better than the workers of some other age groups during the current business cycle as well.

To ensure the diligence of the analysis, two dimensions of comparison are utilized. First, the labour market experience of youth is assessed relative to other age groups, particularly those of the core-working age. Likewise, the hardship endured by youth during the most recent recession is compared to the difficulties experienced by youth during the 1980s and 1990s recessions.

It should be noted that some divergence in the definition of youth exists. Statistics Canada, for instance, defines youth as individuals aged 15 to 24 years whereas the Organization of Economic Co-operation and Development (OECD) recognizes the 15 to 29 age group when examining different social and economic aspects related to youth. The use of a more extended age range is becoming more important today given that for many, the transition from full-time school to full-time work and economic independence is delayed – young people increasingly enter some form of post-secondary education immediately after high school, or move back and forth between work and education for an extended period. To account for these adjustments, the analysis presented in this section focuses on three age groups: (i) “Youth” which is comprised of individuals 15 to 24 years of age, (ii) “Young workers” that fall within the 25 to 29 years of age group, and (iii) “Mature workers” who are defined as those 30 to 54 years of age. Naturally, individuals that are 55 years of age and over can also be seen as part of the mature worker group, particularly given their continued participation perhaps longer than in the past. However, the transition into retirement which most of these individuals eventually make brings a different perspective on the labour market choices made by this group. To take into account the peculiarities of this “older worker” group, Section 3.4 examines their labour market characteristics in more detail.

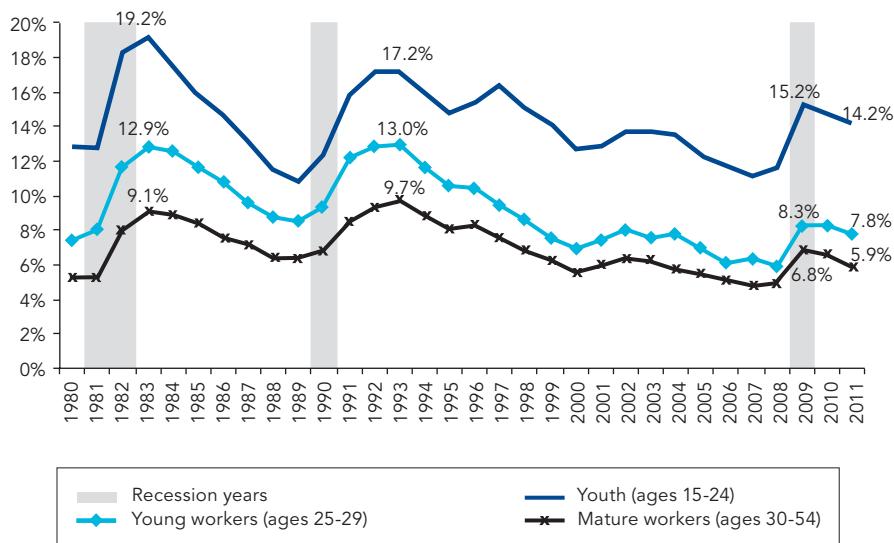
### **3.1. The Youth Unemployment Rate Presents a Declining Trend**

In broad terms, the unemployment rate reflects the balance between labour supply and labour demand and captures all persons who are available for work and are either looking for work, or have been temporary laid off, or have a job

scheduled to start within the next four weeks.<sup>7</sup> Youth in Canada (and in many other countries) has always experienced harder labour market conditions and a higher unemployment rate compared to that of workers of other age groups. The situation did not change much during and after the most recent recession when the youth unemployment rate reached its 10-year peak of 15.2% in 2009 (Figure 1). A number of explanations exist for the constantly elevated unemployment rates faced by youth. For instance, youth typically have less general work skills whereas its human capital may be less specific for the particular firm; youth may also be less effective in job search activities and have a narrower professional network outreach; the willingness of parents to support unemployed youth financially or through intra-household in-kind transfers may also create disincentives for extensive job-search activities. During economic downturn, youth may be affected not only by overall weak labour market conditions, but also by the shift in employers' hiring preferences towards more experienced workers who become available due to layoffs.

The peak level of youth unemployment (15.2%) registered during the recent recession was noticeably below that experienced in previous recessions

**Figure 1 – Unemployment Rate – Canada, 1980-2011**



Source: CANSIM Table 282-0002.

Although the youth unemployment rate is the highest among all age groups present in the labour market, a number of positive developments in this indicator can be noticed. For instance, the peak level of youth unemployment (15.2%) registered during the most recent recession was noticeably below that experienced in previous recessions when the youth unemployment

<sup>7</sup> Statistics Canada (2012). Guide to the Labour Force Survey – 2012, Catalogue no. 71-543-G, p. 17.

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The surge in unemployment was much more trivial for youth engaged in the labour market during the 2009 recession when compared to the two recessions prior

rate mounted to 19.2% and 17.2% in 1983 and 1992 respectively (Figure 1). Moreover, in the two earlier recessions, the youth unemployment rate continued its upward trend for many months after the end of the recession (for instance, for as long as 18 months in the 1990s). In turn, during the most recent recession, the youth unemployment rate started to decline just a few months after positive economic growth resumed. The surge in unemployment which typically occurs in any recession was also much more trivial for youth engaged in the labour market during the 2009 recession when compared to those who were working or searching for work in the two recessions prior. Specifically, the youth unemployment rate increased by only one third (from 11.6% to 15.2%) in 2009 but surged by more than one half in the 1980s and 1990s.

The experience of young workers resembled that of youth, but the positive trend is even more pronounced and particularly evident in the magnitude of the unemployment surge during the most recent recession. The 8.3% peak unemployment rate of young workers registered in 2009 was only two-thirds of that observed in the aftermath of the 1990s recession when the rate went up to its 30-year high of 13.0%.

Research shows that the change in the cohort size of workers affects the unemployment rate inducing it to move in the opposite direction.<sup>8</sup> The dynamic of the Canadian labour market illustrates this fairly well. Unlike the overall Canadian population that has been constantly growing over the past 30 years, youth and young workers experienced a different tendency at times. Specifically, the youth population declined at an average annual rate of 1.5% between 1980 and 1993, whereas the population of young workers picked up the declining trend in 1989 when its size started to shrink at an annual average rate of 1.9%; this trend continued until 2000. The decline in youth and young worker population coincided (although not perfectly year-to-year) with a drop in the unemployment rate of those groups which was more pronounced than the drop in rates of other age groups over the same period of time. For instance, the level of the youth unemployment rate declined at an annual average rate of 9.0%<sup>9</sup> in 1983-1989, while for mature workers this decline amounted to a much lower annual average rate of 5.9%. Similar differences in the pace of decline in unemployment rates also existed between young workers and workers of other age groups over the 1993-2000 period.

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8 Bell, D.N. and Blanchflower, D.G. (2010). *Young People and Recession: A Lost Generation?* Institute for the Study of Labour (IZA).

9 The decline in the level of the unemployment rate should not be confused with the decline of the rate itself. For instance, an unemployment rate that stood at 15% in Year 1 and declined at an annual average rate of 9.0% will reach the mark of 13.8% in Year 2, i.e. 1.2 percentage points lower than in Year 1.

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The trends described in the preceding paragraph become particularly informative when considering projections of population growth for the next several decades. According to the Statistics Canada's medium population growth scenario, the youth population will be contracting for the next 10 years falling by 7.1% in absolute terms by the year 2021. With a slight delay, the population of young workers will also experience a decline by a total 9.3% starting in 2019 through 2029.<sup>10</sup> Naturally, these demographic changes may bring a number of negative consequences to the labour market including exacerbated pressure on wages and shortage of skills; however, they may also result in further improvement of the unemployment rate of youth and young workers. Another obvious demographic trend which is likely to put downward pressure on the youth unemployment rate is the aging of baby boomers.

### **3.2. Roughly Half of Unemployed Youth Exit Unemployment within Four Weeks**

Duration of unemployment is typically measured as the number of consecutive weeks, months or years that elapsed since a person has become unemployed. A more prolonged unemployment signals deteriorating labour market conditions and weakening demand for labour; conversely, a shorter duration of unemployment indicates a high level of labour market turnover and may be seen as a less acute problem.

In 2011, the average duration of unemployment experienced by youth did not exceed 11 weeks; this was twice shorter than the average duration endured by mature workers. Although the average duration of youth unemployment somewhat increased during and after the most recent recession, its present level continues to be low. In fact, the average duration of youth unemployment observed in 2011 (i.e. 11 weeks) was well below the shortest average duration ever experienced by young and mature workers over the past 30 years, namely 12.5 weeks in 2006 and 16.2 weeks in 2008 respectively. Furthermore, youth is the only age group for which the average duration of unemployment in the aftermath of 2009 recession is below the pre-recession levels observed in the 1980s and 1990s (top graph of Figure 2).

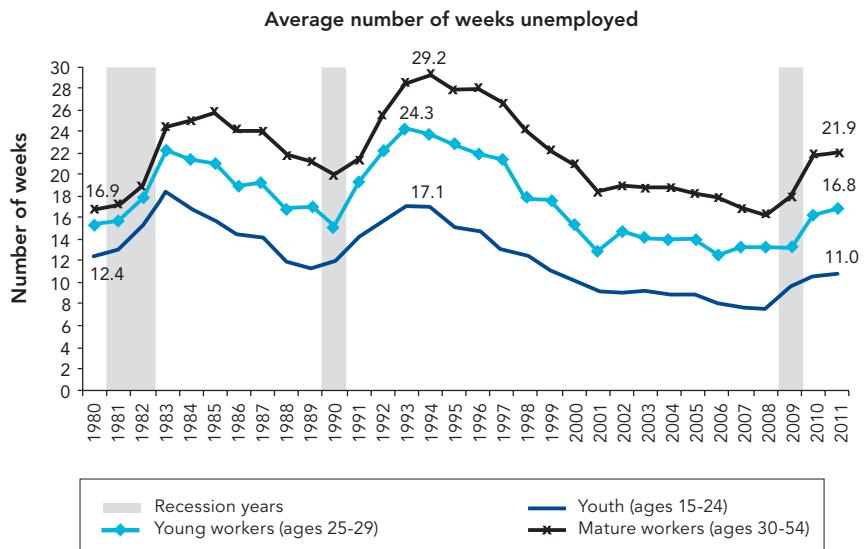
In 2011, nearly half (46.8%) of unemployed youth were able to find a job within 1 to 4 weeks since the beginning of an unemployment spell; among mature workers, only slightly more than one quarter (27.0%) enjoyed a similar positive outcome. Young workers were also less fortunate than youth in the job search as only one third of them were able to escape unemployment within 4 weeks (bottom graph of Figure 2). Youth likewise fared much better than other age

**The average duration  
of unemployment  
experienced by youth  
did not exceed 11 weeks  
in 2011; this was twice  
shorter than the average  
duration endured by  
mature workers**

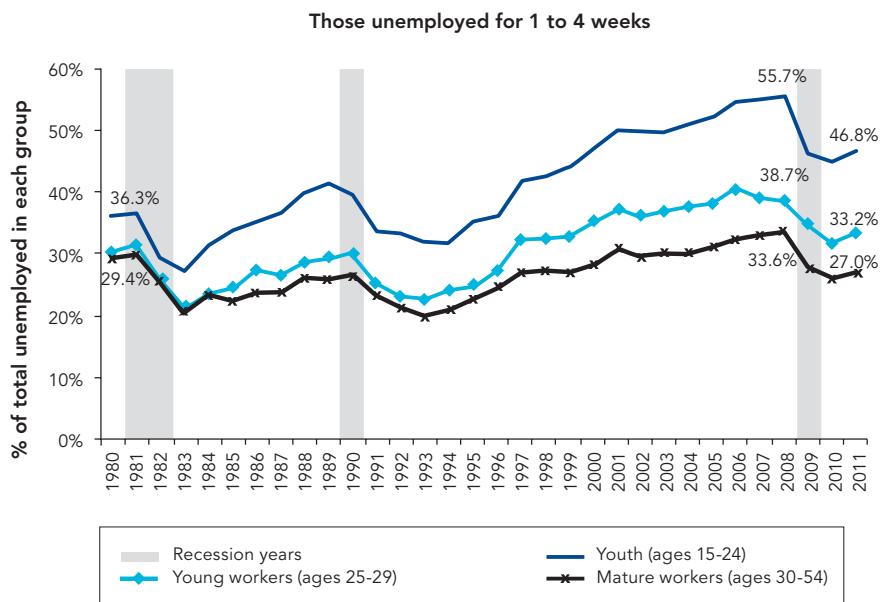
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<sup>10</sup> Based on CANSIM Table 052-0005, CGA-Canada calculations.

**Figure 2 – Duration of Unemployment – Canada, 1980-2011**



Nearly half (46.8%) of unemployed youth were able to find a job within 1 to 4 weeks since becoming unemployed; among mature workers, only 27.0% enjoyed a similar positive outcome



Source: Statistics Canada's LFS custom tabulation, CGA-Canada calculations.

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groups in terms of long-term unemployment. Only 5.4% of unemployed youth maintained unemployed status for one year or more; in turn, young workers were twice more likely and mature workers three times more likely to be long-term unemployed in 2011. In the aftermath of 2009 recession, the risk of becoming long-term unemployed increased among all age groups; however, youth experienced a less pronounced surge. The probability of youth to exit unemployment<sup>11</sup> within one year declined by 4 percentage points during and after the most recent recession (from 98.1% in 2008 to 94.1% in 2011), whereas for mature workers it dropped by nearly 8 percentage points (from 91.0% in 2008 to 83.4% in 2011).

### **3.3. Seven in Ten Unemployed Youth Attended School Prior to Becoming Unemployed**

Individuals may have been involved in different types of activities prior to unemployment: some may have been working but were laid off, or left their job voluntarily to look for better opportunity whereas others may have been outside the labour force unwilling or unable to supply labour services as they were, for instance, attending school, keeping house, or having other reasons. For youth unemployed in 2011, the prevailing activity prior to unemployment was unrelated to the labour market as some 68.1% did not participate in the labour force prior to experiencing joblessness; and only one quarter (25.0%) of unemployed youth worked prior to unemployment. This differed markedly from the situation some 30 years ago when 55.5% of youth job searchers worked prior to becoming unemployed (top graph of Figure 3).

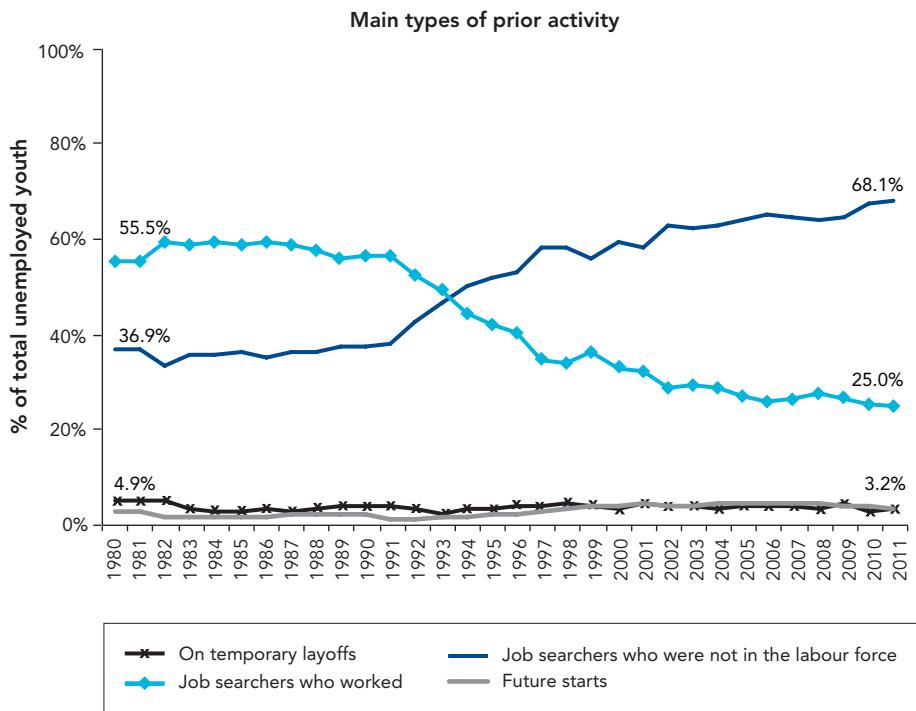
For the majority of youth unattached to the labour market prior to the unemployment spell, attending school was the main activity involved in. Altogether, they represented 57.4% of all unemployed youth in 2011, a proportion more than twice higher compared to that observed in 1980 (bottom graph of Figure 3). Unemployment of youth exiting the educational system and transitioning into the labour market may be of concern if joblessness is prolonged and caused by a mismatch between skills and knowledge acquired by individuals and the needs of employers, or when a high proportion of youth leaves school without completing basic educational requirements. However, short-term, ‘transitional’ unemployment may rather be seen as a natural phenomenon that is part of the integration or re-integration into the labour market. The shift towards an increasing proportion of unemployed transitioning into the labour market from school was also present among young and mature workers; although the magnitude of the shift was noticeably less pronounced.

**Those attending school prior to unemployment represented 57.4% of all unemployed youth in 2011**

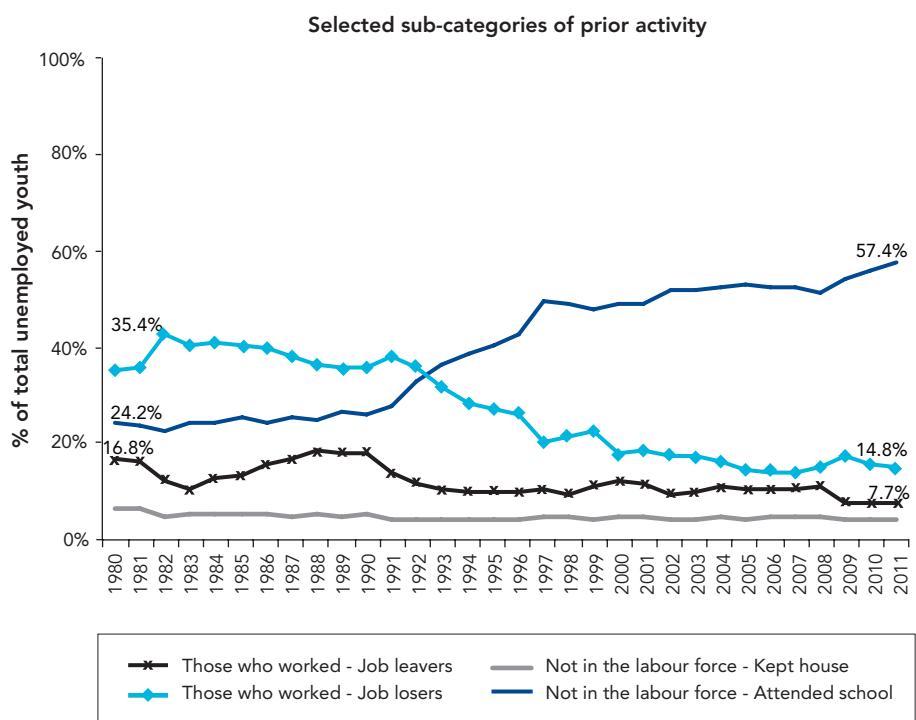
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<sup>11</sup> The probability is calculated as one minus the ratio of the number of unemployed for 53 weeks or more to the number of unemployed for 52 weeks or less.

**Figure 3 – Activity of Youth (Ages 15 to 24) Prior to Unemployment – Canada, 1980-2011**



Only 14.8% of youth became unemployed in 2011 as a result of involuntary job loss; this proportion decreased by more than two fold over the past decades



Source: CANSIM Table 282-0215, CGA-Canada calculations.

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Another positive trend related to youth unemployment may also be observed from the bottom graph of Figure 3: the proportion of job losers noticeably declined in the overall mix of unemployed youth. Those who worked prior to becoming unemployed may have left their jobs voluntary seeking, for instance, better opportunities, or may have lost employment involuntary through a layoff initiated by the employer due to business conditions, downsizing or other reasons. The latter cause of unemployment is probably the most traumatic for individual's well-being as it is often unexpected and reduces individual control over the course of events. In 2011, only 14.8% of youth became unemployed as a result of involuntary job loss; this proportion decreased by more than two fold over the past decades and was not seriously affected during the most recent recession. In contrast, young and mature workers were twice more likely than youth to be unemployed due to involuntary layoffs in 2011; job losers in these age groups formed a prevailing category of unemployed.

**Older workers accounted for some 62.7% of all net jobs created during the economic recovery**

### **3.4. Older Workers Do not Evidently Exacerbate Youth Unemployment**

The labour market conditions experienced by older workers (those 55 years of age and over) were seemingly unaffected by the most recent recession unlike the overall economy that suffered a 2.5% labour market contraction shredding thousands of jobs in 10 months between October 2008 and July 2009. Older workers expanded their employment participation by 3.1% during that period of time and then enjoyed an additional 17.4% increase in the number of jobs during the economic recovery (August 2009 to August 2012). Overall, this translated into the expansion of older workers' employment by 482,000 jobs since August 2009 and accounted for some 62.7% of all net jobs created during the economic recovery.<sup>12</sup> This growth is particularly impressive given the fact that older workers accounted for only 18.3% of the total Canadian labour force in 2012.

Naturally, the marked difference in the labour market developments experienced by youth and older workers brings a question of whether high demand for older workers exacerbates youth unemployment. This attracts particular interest as the working population of older workers is expected to grow by nearly 50% by 2017 with participation rates surging by more than one half among both older men and women.<sup>13</sup> However, as seen in the paragraphs that follow, a number of factors suggest that older workers may not necessarily be in direct competition with youth in the job market.

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12 Based on CANSIM Table 282-0087, CGA-Canada calculations.

13 Human Resources and Skills Development Canada (2008). *Looking Ahead: A 10-Year Outlook for the Canadian Labour Market (2008-2017)*, p. 16.

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Demographic trends may explain, at least in part, the astounding success of older workers in the labour market. The aging of the population increases the number of older individuals in Canada and likewise changes the composition of the workforce. Over the past 3 years, older workers represented the fastest growing segment of the Canadian population with their numbers increasing at an annual average rate of 4.9% between July 2009 and July 2012. As such, what may seem to be an assertive expansion of the older workers' presence in the labour market is, in fact, a mere reflection of the changes in the composition of the Canadian population: after all, the growth in employment of older workers did not exceed the growth in this group's population (Table 1).

**Table 1 – Average Annual Growth in Employment and Population – Canada, July 2009 to July 2012**

|   | Employment | Population |
|---|------------|------------|
| Working age individuals<br>(15 years of age and over) | 1.4%       | 1.9%       |
| Youth (ages 15 to 24)                                 | 0.0%       | 0.3%       |
| Young workers (ages 25 to 29)                         | 1.8%       | 2.2%       |
| Mature workers (ages 30 to 54)                        | 0.8%       | 0.3%       |
| Older workers (55 years of age and over)              | 4.9%       | 4.9%       |

Source: CANSIM Tables 282-0002 and 051-0001, CGA-Canada calculations.

## Demographic trends may explain, at least in part, the astounding success of older workers in the labour market

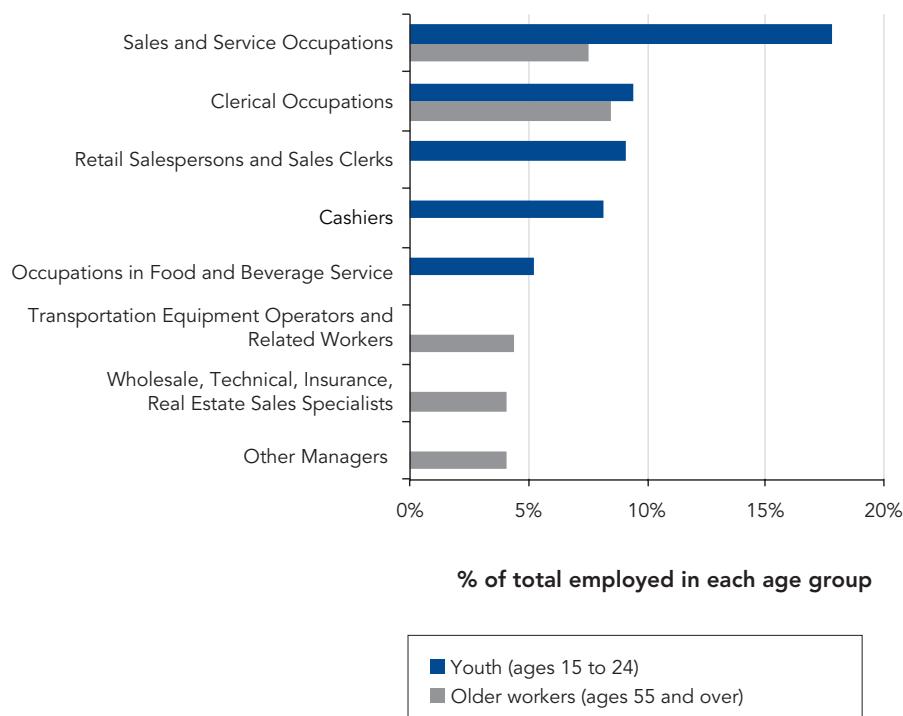
The likelihood of contention between different age groups to appear in the labour market is influenced by the occupational preferences of those age groups. For instance, if the same occupations are viewed as desired by job searchers of different ages, qualities and characteristics of one of the age groups may be consistently more attractive to employers compared to the traits of the other age group. In the case of youth and older workers, the level of knowledge, education and work experience may be among those characteristics that diverge particularly between the two groups.

Occupational preferences of workers and employers can become apparent through the proportion of workers employed in the occupation, the dynamic of the unemployment rate and the growth in employment in that occupation. For instance, the labour market tensions between youth and older workers should be less pronounced if each group seeks employment primarily in occupations which are not among those prevailing for the other age group. Likewise, if an increasing presence of one of the age groups in a certain occupation does not negatively affect the unemployment rate of the other group in that occupation, the crowding out effect is less likely.

The occupational preferences of youth are not as diverse as those of older workers. The five most prevailing occupational groups in which youth was most likely to work in 2011 absorbed nearly half (49.7%) of employed youth and were concentrated in clerical, sales and service related occupations. In turn, a much smaller proportion (28.5%) of older workers was concentrated in five prevailing occupational groups. Moreover, the overlap between the two age groups occurred only in clerical, sales and service occupations; however, older workers tended to be also fairly strongly engaged in such other occupational groups as managers, wholesale, technical, insurance and real estate sales specialists, and transportation and equipment operators (Figure 4). The overlap of youth and older workers in the two occupational groups does not seem to be crowding out youth from those occupations. In 2011, the youth unemployment rate in clerical occupations and sales and services occupations was 8.0% and 9.7% respectively, a level very similar to that observed in the pre-recession 2008 (7.4% and 9.7% respectively) and well below the average unemployment rate of youth (14.2%) registered in 2011.

**The overlap in  
occupational preferences  
between youth and  
older workers occurs  
primarily in clerical, sales  
and service occupations;  
however, older workers  
do not seem to be  
crowding out youth from  
those occupations**

**Figure 4 – Five Prevailing Occupations for Youth and Older Workers – Canada, 2011**



Note: The proportion of employed is shown only for occupations that are among the five most prevailing occupations for each age group.

Source: Statistics Canada's LFS custom tabulations, CGA-Canada calculations.

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**The number of higher-wage occupations that employed youth grew by 19.2% between October 2009 and October 2011**

In the aftermath of the most recent recession, employment of older workers grew at a particularly strong pace in fairly wide range of occupations; the most notable increase was observed among sales and service supervisors, occupations related to travel and accommodation, recreation and sport, food and beverage services, and professional occupations in natural and applied sciences. Employment of older workers in these occupations increased at an annual average rate of 13% to 15% in 2009-2011; however, unemployment of youth in these same occupations remained well below the average.

### **3.5. The Fastest Growth in Post-recession Youth Employment Was Concentrated in Higher-wage Occupations**

During the most recent recession, the Canadian labour market lost some 431,000 jobs over the 10 month period between October 2008 and July 2009; more than half of those – 253,000 – were jobs employing youth. If measured in nominal terms, the rebound in the number of youth jobs that took place during the recovery years was modest at best as it was seriously affected by the decline in the youth labour force; the latter shrank at an average annual rate of 1.6% over 2009-2011. Despite the seemingly unimpressive performance in numbers, the quality of youth jobs has been improving during the recovery.

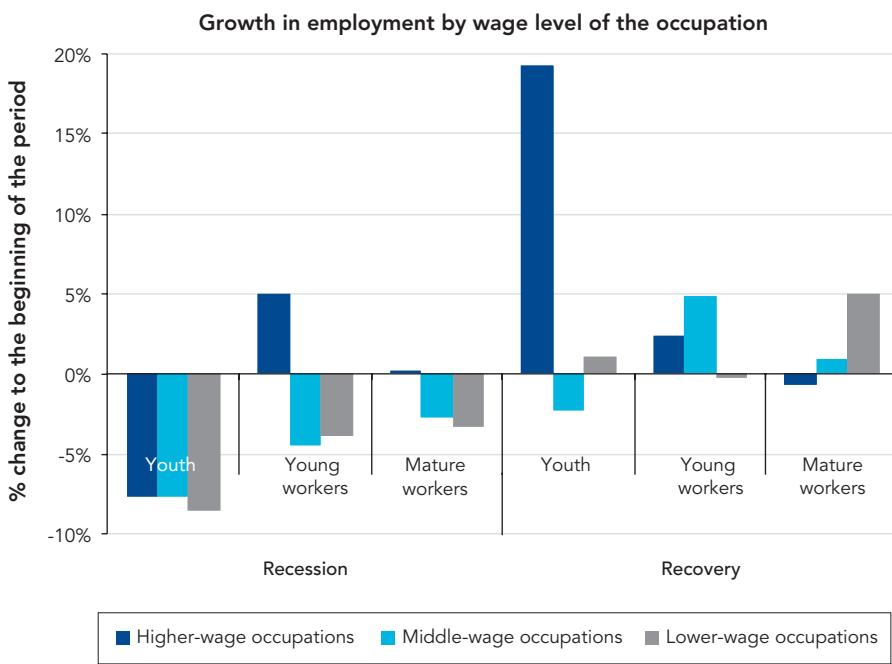
During the recession, the job losses of youth were fairly equally distributed among lower, middle and higher-wage occupations<sup>14</sup> as each group shrank by nearly 8% over the year between October 2008 and October 2009. In recovery, youth presence in higher-wage occupations grew at a much faster rate compared to middle and lower-wage occupations. In fact, the number of higher-wage occupations that employed youth grew by 19.2% between October 2009 and October 2011 (top graph of Figure 5). This translated into 18,800 higher-wage youth jobs added during the economic recovery – the number that exceeded by far (in absolute terms) the job gains in higher-wage occupations observed among young and mature workers in the aftermath of the recession.

Young workers also enjoyed favourable changes in the quality of jobs: both during the recession and into recovery. This group increased its presence in higher-wage occupations by 5.1% between October 2008 and October 2009, and by another 2.3% between October 2009 and October 2011. Altogether,

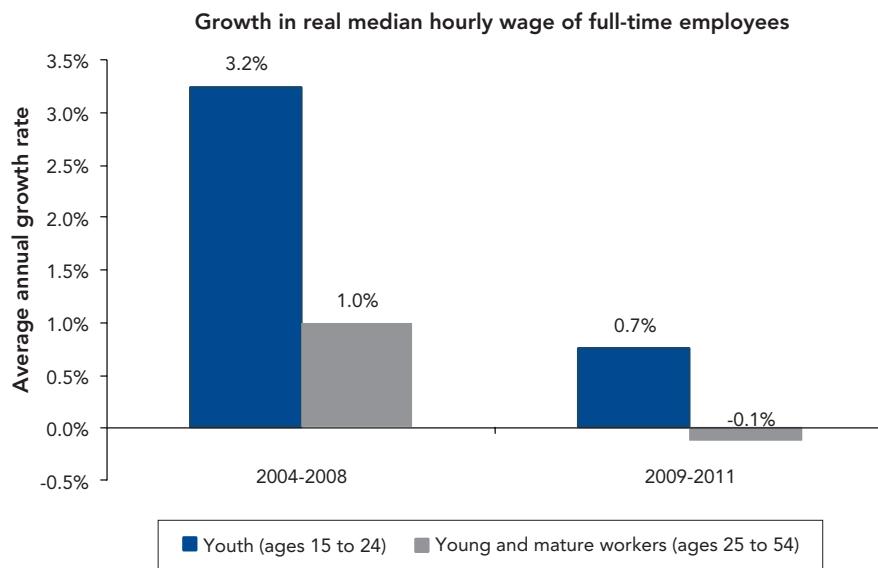
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<sup>14</sup> To classify occupations into lower, middle, and higher-wage groups, occupations at 2-digit level of aggregation of the National Occupational Classifications for Statistics (NOC-S) were ranked from highest to lowest based on the median hourly wage received by workers in those occupations in October 2011. The difference between the highest and the lowest median hourly wages was divided into 3 to identify the increment of the wage interval to form the wage groups; in this way, three equal thirds of the wage range were identified. The occupations were then grouped according to the wage into lower, middle, and higher-wage groups. This process was repeated for each age group. It should be noted that the actual value of the wage attributed to each wage rage differs depending on the age group. For instance, the median hourly wage of higher-wage occupations employing youth ranges from \$20.41 to \$25.00 whereas for mature workers this rage is from \$30.00 to \$38.00.

**Figure 5 – Growth in Employment and Wages – Canada**



Youth enjoyed a 0.7% increase in the real median hourly wage during the 2009-2011 period while real wages of most workers declined



Note: In order to take into account seasonal differences in employment trends, the term "Recession" in the top chart is defined as the period between October 2008 and October 2009 whereas the term "Recovery" is defined as the period between October 2009 and October 2011.

Source: Statistics Canada's LFS custom tabulations and CANSIM Table 326-0021 (bottom chart), CGA-Canada calculations.

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The Canadian youth unemployment rate was 11th lowest among 34 OECD countries in 2011 whereas the unemployment rate of young and mature workers placed 19th

young workers added some 32,500 high-quality jobs during and in the aftermath of the recession. In turn, mature workers were less fortunate: although they lost a smaller proportion of jobs during the recession than other age groups, new work spaces created during the economic recovery in this age group were primarily concentrated in lower-wage occupations. Overall, the number of low-paying jobs that employ mature workers increased by 5.0% between October 2009 and October 2011 whereas the number of higher-wage occupations shrank by 0.7% over the same period of time (top graph of Figure 5).

Wages earned by youth workers also presented a positive trend in recent years. As seen from the bottom chart of Figure 5, the wage growth of youth outpaced that of other age groups both prior and in the aftermath of the most recent recession. In 2004-2008, the real median hourly wage of youth working full-time increased at an annual average rate of 3.2% – three times higher than the growth rate experienced by young and mature workers. During the 2009-2011 period, when real wages of most workers declined, youth continued to enjoy a 0.7% average annual increase in the real median hourly wage.

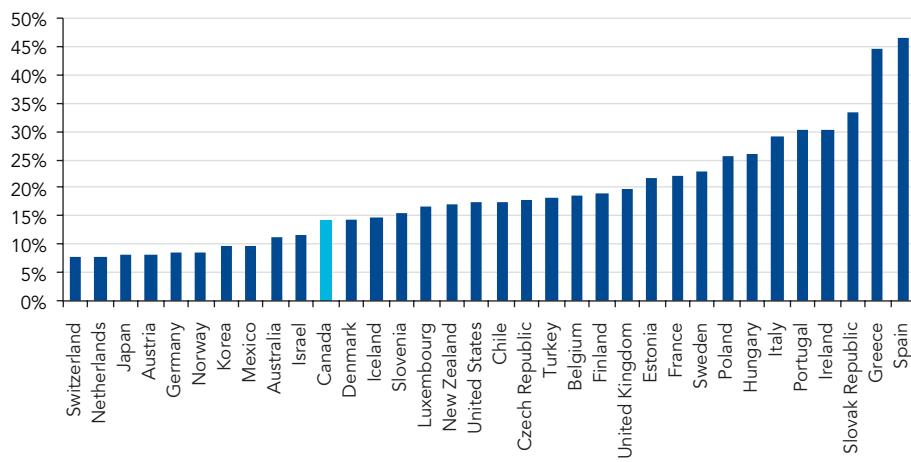
Wage performance in specific occupations was also favourable for youth in the aftermath of the most recent recession. The average annual growth rate of the real median hourly wage of youth working in the four out of five occupations where youth is primarily concentrated (i.e. retail salespersons and sales clerk, cashiers, occupations in food and beverages service, and other sales and service occupations) outpaced by far the growth in wages experienced by young and mature workers in those occupations. For example, the real wage of youth working as retail salespersons and sales clerks grew at an average annual rate of 1.1% between 2009 and 2011; in turn, young and mature workers employed in those occupations saw their real wage declining at an average annual rate of 1.5% and 0.4% respectively.

### **3.6. Canadian Youth Fares Better Than Other Age Groups in International Comparison**

Economic recovery continues to be highly uneven in the OECD countries even though it is broadening and strengthening in some of the jurisdictions. The dynamic of the labour market is likewise very diverse with the unemployment rate ranging from as low as 3.3% in Norway to as high as 21.7% in Spain in 2011. Even though Canada is not among the top OECD performers in terms of the strength of the labour market, its 7.4% unemployment rate observed in 2011 was nevertheless below the OECD's average rate that stood at 8.2% in that year.

Although Canadian youth experienced more severe labour market hardship in the aftermath of the most recent recession when compared to other age groups, it fared better than young and mature Canadian workers in international comparison. In 2011, the Canadian youth unemployment rate was 11th lowest among 34 OECD countries (Figure 6). In turn, the unemployment rate of young Canadian workers ranked 13th lowest whereas the unemployment rate of the age group that combines young and mature workers (i.e. ages 25 to 54) placed 19th among the OECD countries.

**Figure 6 – Unemployment Rate of Youth (Ages 15 to 24) in OECD Countries, 2011**



Source: OECD. Stat, Labour Force Statistics database, extracted on September 25, 2012.

Summing up the discussion, the following points are deemed important. First, the youth unemployment rate has retained its overall long-term declining trend despite the most recent recession, whereas the effect of cyclical fluctuations in the rate was more moderate for youth than for workers in other age groups. Importantly, the rapid expansion in employment of older workers does not seem to negatively impact the unemployment trends of youth. Second, youth unemployment tends to be short-lived as nearly a majority of youth unemployed find work within four weeks after becoming jobless; for other age groups, the struggle to escape unemployment is much more prolonged. Third, only a small (and declining) proportion of youth become unemployed as a result of involuntary layoffs; for the majority, unemployment is a transitional phase from school to the labour market. Fourth, the expansion in the youth labour market that took place in the aftermath of the most recent recession was primarily concentrated in the higher-wage occupations; real wages of youth

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were also on the rise. Young and particularly mature workers did not share these positive trends. Fifth, the decline in the population of young Canadians aged 15 to 29 that is expected to take place in the next two decades may further improve the labour market outcomes of youth by putting downward pressure on the youth unemployment rate.

As the issue of youth unemployment does not present a particularly strong concern, the attention in the balance of the report is accorded to the issue of youth underemployment.

## 4. Underemployment<sup>15</sup> of Youth Requires Greater Attention

# 4

Underemployment may take a number of forms; the two most prevailing of them are underutilization of skills and underutilization of labour. Underutilization of skills appears when workers with higher level of education and/or job experience are employed in occupations that do not require such abilities. Similarly, underutilization of skills may appear when individuals are employed in a field outside of their area of formal education, training, or expertise whether or not the level of educational attainment is a good match to employment requirements. In turn, underutilization of labour occurs when workers are willing and able to supply their labour full-time, but work in part-time jobs as they could not find full-time employment. Likewise, underutilization of labour occurs when workers are discouraged by market conditions to search for a job.

Underutilization of skills is often referred to as invisible underemployment as the data collection tools currently utilized by Statistics Canada and other agencies do not gather information on the degree of matching between the level of individual's skills and abilities and the requirements of the job they perform. In turn, underutilization of labour is often referred to as visible underemployment as a number of indicators exist to capture this phenomenon.

Whether visible or invisible, underemployment tends to be overshadowed by the headline measures of labour market hardship – unemployment – particularly in a troubled economy when having any type of job may be seen as a better outcome than being unemployed. To shed light on the extent of underemployment of youth workforce in Canada, the paragraphs that follow present selected evidence of underutilization of youth skills and labour.

**Underemployment tends to be overshadowed by the headline measures of labour market hardship – unemployment**

### 4.1. Underutilization of Skills

In recent years, the underutilization of youth skills in Canada has primarily manifested through the absence of adjustments in the skills structure of

<sup>15</sup> Underemployment, over-qualification, and underutilization are related terms, however, their meaning is not exactly the same. Underemployment speaks primarily to individuals who are employed but whose skills and labour are underutilized. Over-qualification, in turn, speaks only to individuals whose skills are underutilized but does not account for differences in the labour market status of those individuals. Underutilization, in turn, is a more inclusive concept that includes underemployed and over-qualified but also extends to individuals who are discouraged from job search and are no longer supplying their labour. For the purpose of this report, we discount the differences in these terms and use them interchangeably applying an all-inclusive approach to the notion of underemployment and underutilization.

the occupational mix present in the economy, and through a more direct underutilization of skills in some specific occupations.

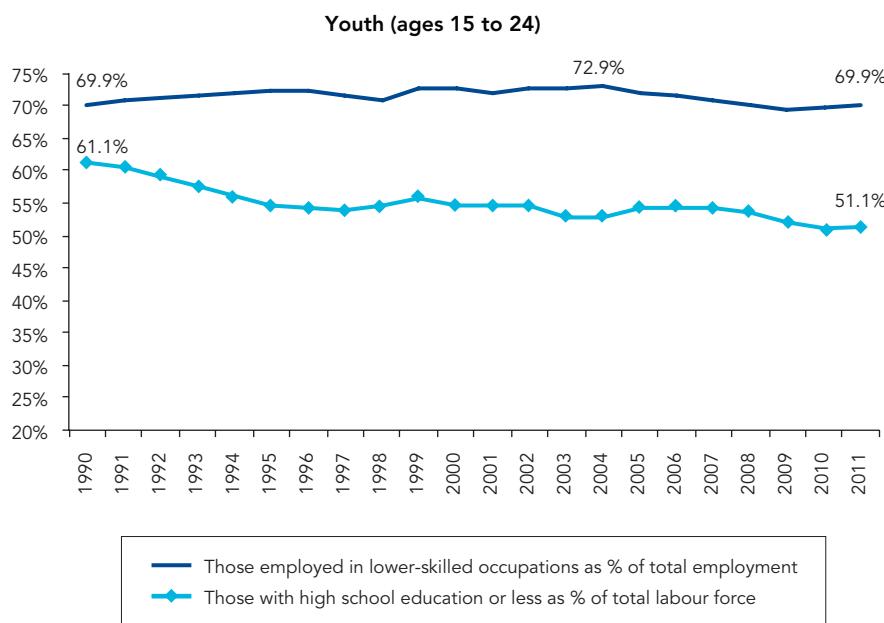
#### **4.1.1. Improved Educational Attainment of Youth Does Not Secure Better Jobs**

Educational attainment is frequently viewed as the most important means of vocational mobility and labour market success as higher levels of education are regarded as investment that is expected to result in higher employment prospects and increased future benefit from labour market participation.

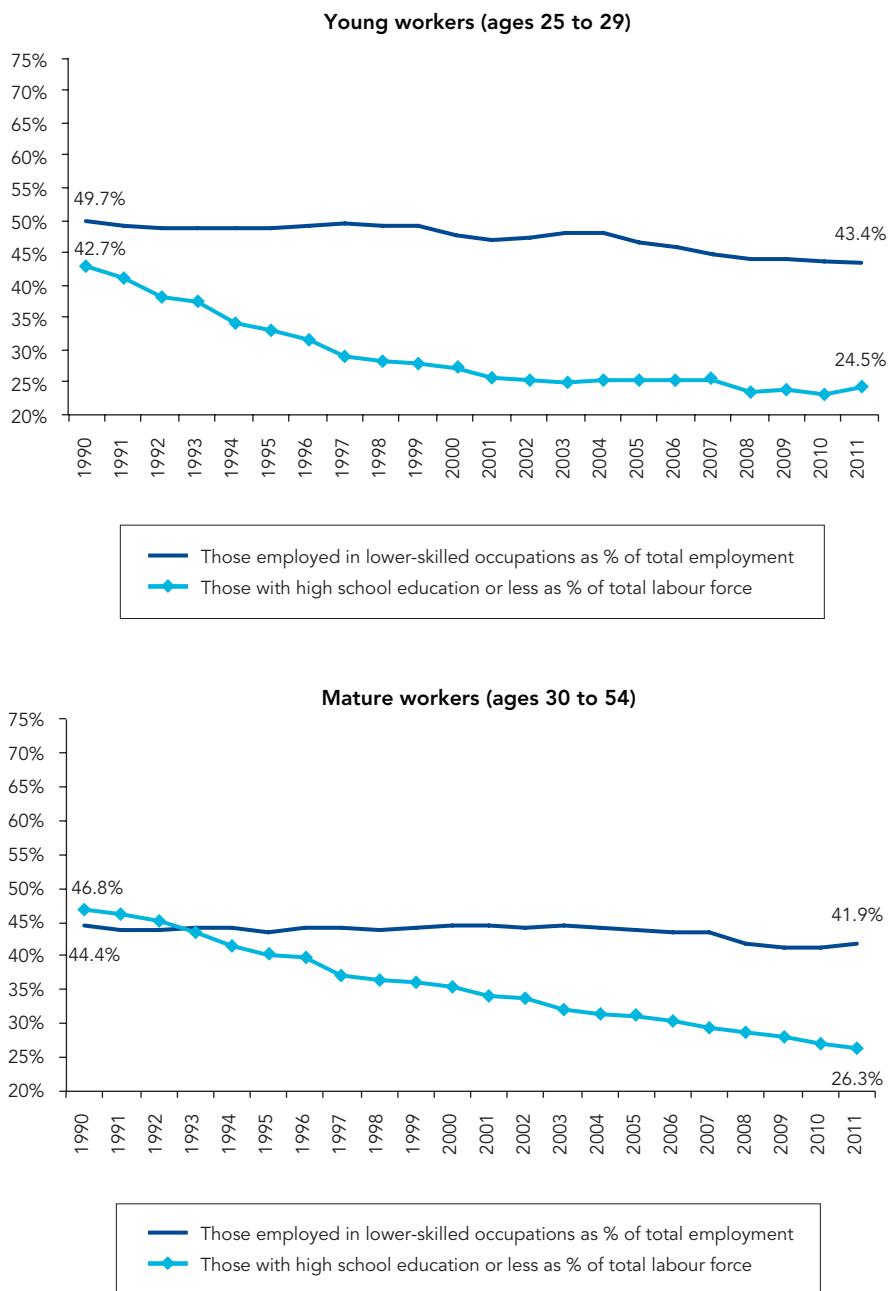
**The proportion of the youth labour force that holds high school diploma or less declined from 61.1% in 1990 to 51.1% in 2011**

The recognition of the link between economic success and education has led to individuals of all ages widening their participation in university as well as lifelong learning. This has also powered the change in the educational profile of Canadian youth which over the past decades has shifted towards an increasing level of above-high school educational attainment. One of the most noticeable adjustments was the growing number of youth possessing a university degree: individuals in this group accounted for 7.8% of the total youth labour force in 2011 compared to only 5.2% in 2004. Another noticeable, although more gradual, change has been the number of workers with highest level of educational attainment not exceeding high school. The proportion of the youth labour force that holds high school diploma or less declined from 61.1% in 1990 to 51.1% in 2011. For young workers, improvements in the level

**Figure 7 – Changes in the Proportion of Lower-skilled Jobs and Lower-skilled Workers – Canada, 1990-2011**



**Figure 7 – Continued**



Despite the declining proportion of youth with low levels of education, the proportion of youth employed in lower-skilled occupations did not change at all between 1990 and 2011

Note: Lower-skilled occupations are defined as those that usually require completion of secondary school and/or some short-duration occupation-specific training, as well as those for which no formal educational requirements are set but short work demonstration or on-the-job training is usually provided. The list of lower-skilled occupations was identified based on the National Occupational Classification Matrix 2011 of Human Resources and Skills Development Canada (HRSDC) and consisted of occupational groups that fall under skill level C and D of the matrix. The terms "total employment" and "total labour force" used in Figure 7 refer to totals in each age group.

Source: Statistics Canada's LFS custom tabulations, CGA-Canada calculations.

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**The low sensitivity of the labour market to changes in mature workers' educational profile suggests that underutilization of skills is not an age-related issue**

of education are even more pronounced as the proportion of the labour force having attained high school or less declined by nearly two fold over the past two decades. A similar trend is also observed among mature workers (Figure 7).

However, the capacity of the economy to tap into the enlarged pool of better educated youth has not kept up with the pace of improvement in the level of educational attainment of workers as rising levels of educational attainment among workers are not necessarily well reflected in the quality of jobs held. Despite the declining proportion of youth with low levels of education, the proportion of youth employed in lower-skilled occupations (those for which employment requirements do not exceed high school education or can be satisfied with on-the-job training) did not change at all between 1990 and 2011 while a slightly increasing trend was present up to 2004. The overall quality of jobs of young workers improved somewhat more noticeably as the proportion of those employed in lower-skilled occupations declined from 49.7% in 1990 to 43.4% in 2011. However, given the magnitude of the decline in number of young workers with lower levels of educational attainment, a greater reduction in the number of lower-skilled jobs employing young workers might have been expected (first two graphs of Figure 7).

When the sensitivity of the labour market to changes in workers' educational profile is examined for mature workers, it becomes apparent that underutilization of skills is not an age-related issue. The proportion of mature workers whose level of educational attainment does not exceed high school had a steady downward trajectory over the past two decades declining from 46.8% in 1990 to 26.3% in 2011; however the importance of lower-skilled jobs in the overall mix of employment opportunities available for mature workers did not noticeably change over the same period of time (bottom chart of Figure 7).

The nearly unchanged reliance of the economy on lower-skilled jobs despite the improving quality of the labour force may be reflective of the overall structure and output of the economy and influenced by possible market imperfections, the mix of government policies and a number of institutional factors. It may also however suggest that the skills and abilities of some workers employed in lower-skilled occupations are underutilized as they possess qualifications exceeding the employment requirements of the lower-skilled occupations. The paragraphs that follow examine this assumption in more detail.

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#### **4.1.2. Skills of One in Four Highly-educated Youth Worker are Underutilized**

Skill level is defined generally as the amount and type of education and training required to enter and perform the duties of an occupation.<sup>16</sup> As such, deriving conclusions regarding the degree of underutilization of workers' skills necessitates undertaking the analysis at the lowest unit level of the occupational classification: in this way, the level of educational attainment of workers employed in each particular occupation can be compared to the employment requirements of that occupation. The most comprehensive statistical data on socio-economic characteristics of individuals employed in different occupations is collected by Statistics Canada through the Census. Although another major Statistics Canada's survey – the Labour Force Survey – also provides a wealth of information at the occupational level; it does not have sufficient reliability when it comes to occupational data for specific age groups. As such, the analysis in this section is limited to the data available from Census 2006<sup>17</sup> which allows identification of characteristics of employees who worked full-time throughout 2005.

Of some 500 unique occupations included in the National Occupational Classification for Statistics (NOC-S), skill requirements of 339 occupations do not exceed those typically obtained through post-secondary education at a community college or apprenticeship training.<sup>18</sup> Individuals holding a university degree such as bachelor's, master's or doctorate typically should not be expected to be employed in these occupations as the nature and level of their education and training is outside of the requirements necessary to perform duties of those occupations.

The results of the analysis show that skills of some 24.6% of all youth with a university degree who were employed full-time and worked full year in 2005 were underutilized as they were employed in occupations that required less than a university degree to successfully perform the occupation's duties. This situation was particularly prevalent among youth with a bachelor's degree; however, about one in ten youth workers who held a master's degree were likewise employed in occupations that required some post-secondary education or less (Figure 8).

**Skills of some 24.6% of  
all youth with a university  
degree who were  
employed full-time and  
worked full year in 2005  
were underutilized**

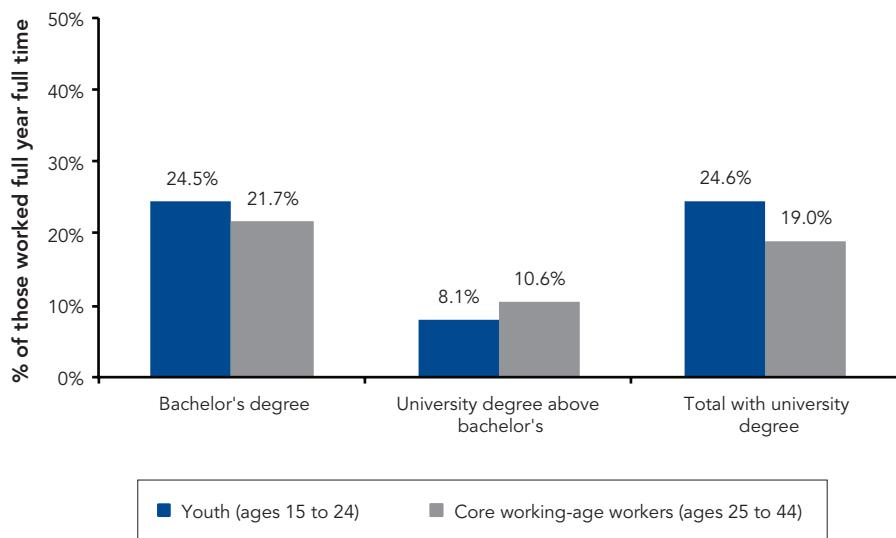
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16 Human Resources and Skills Development Canada (2011). *Introduction to the National Occupational Classification (NOC) 2011*, available at <http://www5.hrsdc.gc.ca/noc/english/noc/2011/introduction.aspx>

17 Although some data products of Census 2011 have already been released, information on labour and labour market activity by industry and occupation is not yet available from Census 2011.

18 Education and training requirements for each occupation included in the NOC-S were identified using occupational descriptions of the National Occupational Classification (NOC) of Human Resources and Skills Development Canada (HRSDC). NOC-S 2006 to NOC 2011 concordance table was utilized to establish the relationship between employment requirements and occupations included in the NOC-S.

**Figure 8 – Underutilization of Skills – Canada, 2005**



Source: Statistics Canada's Census 2006, CGA-Canada calculations.

## Underutilization of youth skills was particularly prevalent in sales and service occupations, and clerical occupations

Underutilization of youth skills was particularly prevalent in sales and service occupations, and clerical occupations; however, it was also noticeable in some other occupational groups. Four specific occupations not requiring a university degree – tour and travel guides, library and archive technicians and assistants, personal clerks, and other instructors – underutilize youth skills particularly often as more than 20% of youth employed in these occupations hold a university degree.

At the same time, a fairly substantial range of occupational groups did not display noticeable underutilization of youth skills. Those groups included trades, transport and equipment operators and related occupations, and occupations unique to primary industry, processing, manufacturing and utilities. Even though some 20% of all employed youth worked in those occupational groups, none of the occupations that require less than university degree employed youth workers that held university certificate or degree.

As seen from Figure 8, skills of core-working age individuals were also seriously underutilized, although to a somewhat lesser extent than was the case with youth. Some 19.0% of workers aged 25 to 44 who were employed full-time full year in 2005 and held a university degree worked in occupations where duties could have been, based on specified requirements, successfully carried out by employees with lower levels of educational attainment. The range of occupations in which skills of core-working age workers were underutilized

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was much wider compared to that of youth and was spread across all occupational groups. Likewise, the number of specific occupations that underutilized skills of core-working age workers particularly often exceeded that of youth several fold. Specifically, more than 20% of those employed in some 44 occupations that did not require more than post-secondary education held a university degree.

Some level of skills underutilization may naturally persist in the economy, particularly among mature workers. Setting aside changes in personal or professional pursuits, it is not uncommon for individuals to transition in and out of the labour force. This may be caused by personal or family responsibilities, illness or simply personal preferences. Depending on the length of disengagement from the labour market, skills of the individual may become outdated or be lost as they are not maintained through active usage. Although the formal level of educational attainment of such individuals remains unchanged, their actual ability to perform certain duties may be diminished leading to a decreased employability in occupations where employment requirements may otherwise be satisfied with the level of their educational attainment. However, such situations should be less prevalent among youth who are at the beginning of their career.

It should be recognized that the data from Census 2006 may not fully reflect the magnitude of skills underutilization in today's economy and may mask the improvements that could have taken place over the past six years. However, it would seem to be highly unlikely that such improvements indeed took place given the degree of labour market deterioration that occurred during the 2009 recession. Undertaking a similar analysis in 2013 when data from Census 2011 become available may be important to fully understand the scope and depth of skills underutilization in the Canadian economy.

#### **4.1.3. The Labour Market Advantage of Higher Education is Diminishing**

Higher levels of education are typically associated with a higher employment rates while the latter is expected to be negatively correlated with the unemployment rate. As such, the likelihood of workers to become unemployed is assumed to decline as the level of educational attainment rises. Overall, the labour market conditions experienced by youth have been following this logic fairly well in both ups and downs of the business cycle. For instance, at the peak of the recession in 2009, the unemployment rate of youth who attended or completed high school was 19.2% whereas youth having a university degree enjoyed a much lower rate of 8.9%. Three years prior, when the business cycle was in its expansionary stage, a similar advantage of higher education was apparent: the youth unemployment rates ranged from 14.7% for those whose

**The likelihood of workers to become unemployed is assumed to decline as the level of educational attainment rises**

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**The gap between unemployment rates experienced by youth with some post-secondary education and youth with university degrees has diminished over the past decades**

highest level of educational attainment did not exceed the completion of high school to 7.4% for youth holding a university degree. However, the comparison of groups with a narrower disparity in educational attainment shows that the advantage of higher education has diminished.

As seen from the top chart of Figure 9, the gap between unemployment rates experienced by youth with post-secondary certificates or diplomas and youth with university degrees has diminished significantly over the past two decades; even becoming negative in the early and mid-2000s when youth university graduates had higher chances of experiencing unemployment when compared to those with certificates or diplomas from community colleges. The peak negative difference was observed in 2002 when the unemployment rate of youth having a university degree was 9.0% – a full percentage point above the 8.0% rate of youth with post-secondary education. Although young workers experienced a negative gap less often compared to youth, their unemployment rate advantage of higher education likewise diminished over time and came to near zero in 2011.

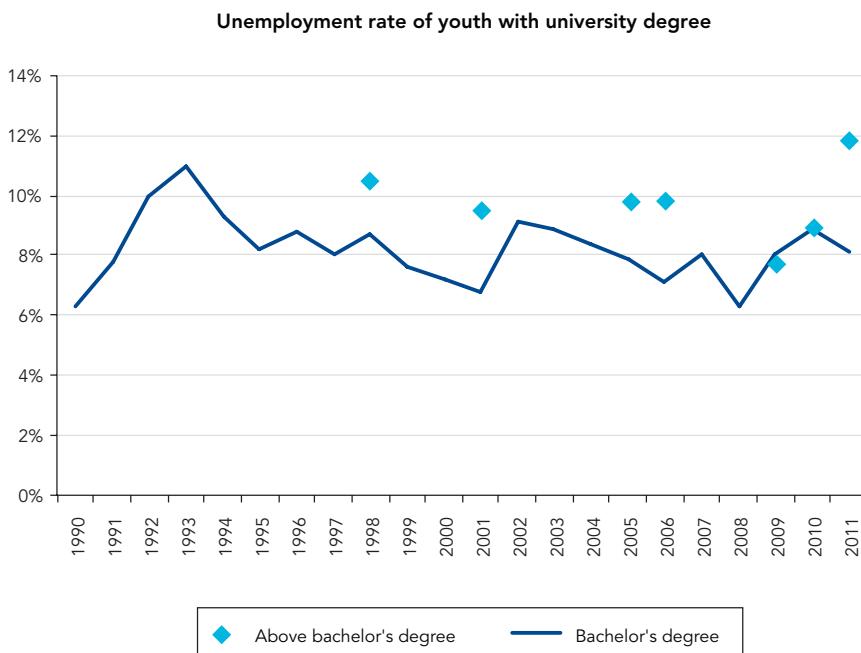
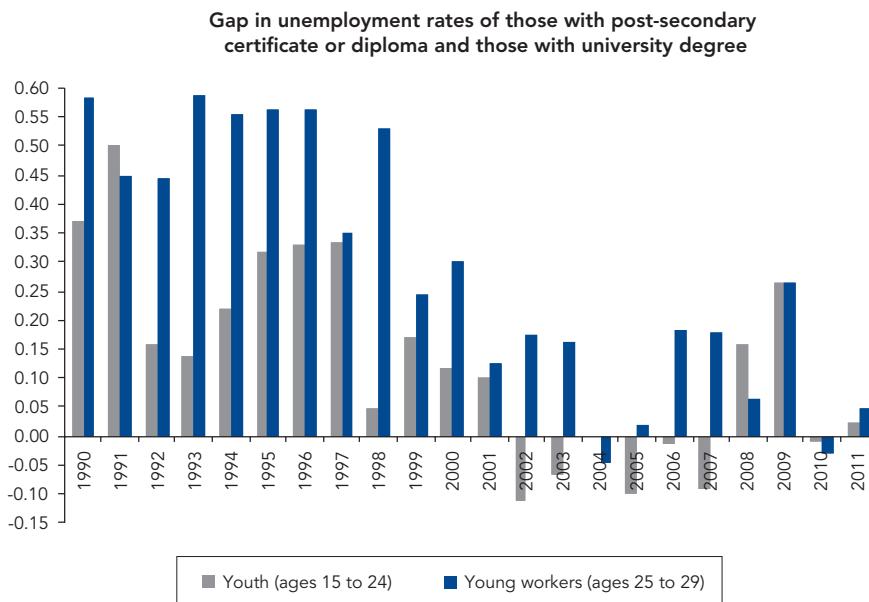
The labour market advantage of obtaining a higher level of university education (e.g. graduate or post-graduate degree) may also be fading away for youth: the unemployment rate of youth with a graduate (master) degree was consistently above the rate experienced by youth with baccalaureate degree in all but one years for which data is available (bottom chart of Figure 9). However, the limitations of data availability do not allow forming an affirmative conclusion.

## **4.2. Underutilization of Labour**

The number of involuntary part-timers and discouraged job searchers form two main indicators that may be used to gauge the degree of underutilization of labour. Both of these indicators deteriorated during the most recent recession; however, their contribution to the overall underemployment of youth was noticeably different.

For many people, part-time jobs are a convenient way of combining paid employment with other activities that may range from family care, to attending school and to leisure pursuits. On average, some 17% of employed Canadian workers choose to engage in part-time work every year and this proportion has been fairly stable over the past 15 years. However, some of those working part-time do so involuntary as they would prefer (if the choice exists) to perform at their full capacity holding a full-time job. Naturally, the main reason for involuntary part-time employment is the inability to find full-time work; employer's decision to reduce working hours in response to unfavourable business conditions may likewise lead to involuntary part-time

**Figure 9 – The Unemployment Rate Advantage of Higher Education – Canada, 1990-2011**



Note: Top chart: the gap in unemployment rates is measured through a ratio of the unemployment rate of those with post-secondary certificate or diploma to the unemployment rate of those with university degree. Bottom graph: the unemployment rate of the "Above bachelor's degree" category is shown only for years for which estimates are deemed reliable.

Source: Statistics Canada's LFS custom tabulations, CGA-Canada calculations.

The labour market advantage of obtaining a higher level of university education (e.g. graduate or post-graduate degree) may also be fading away for youth

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**During the most recent recession, the highest rate of involuntary part-time employment occurred among youth**

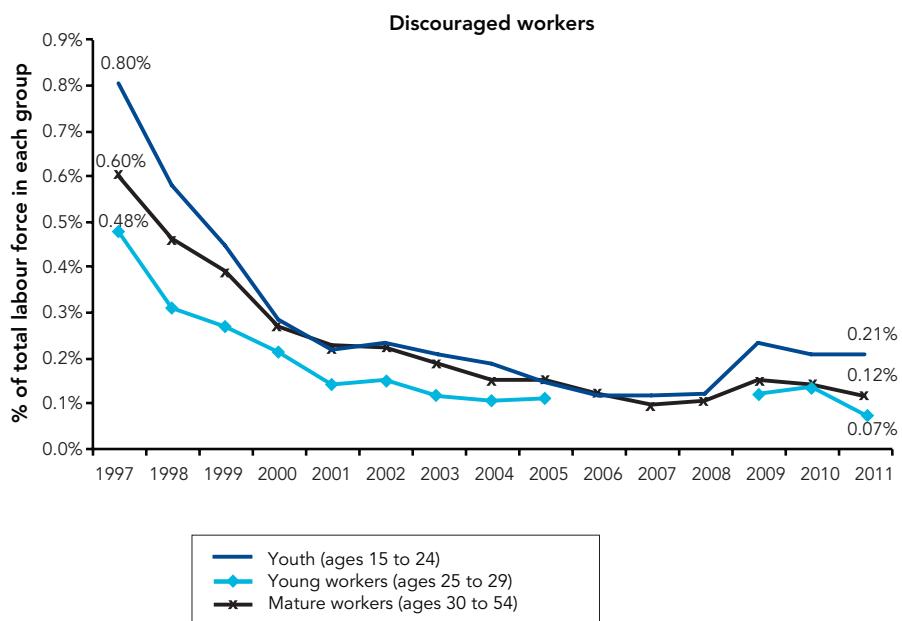
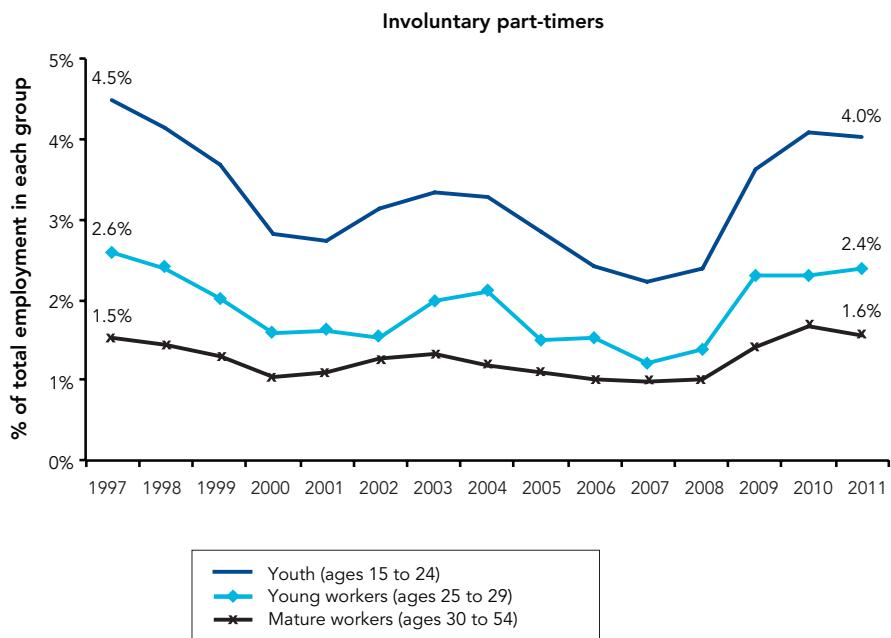
employment. The number of involuntary part-timers tends to rise and fall with the fluctuations in the unemployment rate as people are forced into part-time work when business conditions worsen.

During the most recent recession, incidences of involuntary part-time employment increased among workers in all age groups; however, the highest rate of involuntary part-time employment occurred among youth. By 2011, the economy was underutilizing the ability and willingness to provide labour of some 4.0% of employed youth; prior to the recession, this proportion was nearly twice smaller and stood at 2.2% in 2007 (top graph of Figure 10).

The increase in youth unemployment during the most recent recession was accompanied by a decline in the participation of youth in the labour force as some individuals transitioned back to school or engaged in other, labour market-unrelated activities. Some individuals, however, became discouraged in their ability to find employment. Although formally such individuals constitute part of those not in the labour force, they nevertheless represent available human capital and thus can be seen as underutilized. In the aftermath of the most recent recession, the proportion of youth available and willing to work, but not looking for work because they believed that no suitable work was available went up nearly two fold from 0.11% of the youth labour force in 2008 to 0.21% in 2011. The magnitude of this increase exceeded greatly that experienced by mature workers. However, in relative terms, discouraged youth workers continue to represent an only small proportion of those working or willing to work. Moreover, a significant improvement in the number of discouraged workers was observed since 1997 – at that time, the proportion of discouraged youth workers was nearly four times higher than that observed in 2011.

Summing up the discussion above, it is important to underscore that underemployment of youth manifests in a variety of ways. First, it is a direct underutilization of skills of a large proportion of young university graduates who are employed in lower-skilled occupations. Second, it is a more general erosion of the economy's capacity to absorb and utilize improved quality of labour; this erosion is seen in the diminished employability advantage of youth with higher levels of education, and in a shortfall of adjustments to the overall occupational mix that take into account the declining presence of lower-skilled youth in the labour force. Third, it is a straightforward underutilization of labour (such as involuntary part-timers and discouraged workers) which may not be in demand due to business conditions or imperfections of labour market information. Another aspect of

**Figure 10 – Involuntary Part-time and Discouraged Workers – Canada, 1997-2011**



Note: Bottom graph: the interruption in the series for young workers (years 2006 to 2008) is due to suppression of data caused by the reliability concerns.

Source: Statistics Canada's LFS custom tabulations, CGA-Canada calculations.

The economy was underutilizing the ability and willingness to provide labour of some 4.0% of employed youth in 2011

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underemployment that is worth highlighting is its age-neutrality: although youth is somewhat more susceptible to underemployment, this phenomenon is present in the labour market for all age groups.

# Causes, Consequences and Contributing Factors of Underemployment

In order to assess the seriousness of the issue of underemployment and the urgency of corrective measures, it is important to understand the nature and the scope of the consequences generated by underemployment as well as its underlying causes.

## 5.1. Consequences of Underemployment are Fairly Well Known; Causes are Less Well Understood

The presence of underemployment indicates that the integration of individuals into the workforce is not optimal. The consequences have been fairly well documented by researchers. The most obvious and often cited negative outcome of underemployment is the inferior labour market performance of workers in terms of earnings. However, underemployment also constrains workers' ability to update skills through on-the-job training limiting the attainment of new skills and eroding quality of skills possessed prior to underemployment. The deterioration of skills through a prolonged spell of underemployment may eventually require workers to undertake retraining in order to be able to return to a former field. Underemployment also diminishes job satisfaction and may lead to a lower emotional commitment of the employee to the organization and negative job attitudes and behaviours; it may also result in a negative attitude toward one's career and lower career investment. Beyond the working realm, "scarring" of underemployment may include increased psychosocial stress and a negative impact on physical health. For employers, underemployment of workers leads to higher personnel turnover and a growing challenge in developing and retaining firm-specific human capital and corporate knowledge.<sup>19</sup>

At the societal level, underemployment may contribute to suboptimal levels of output and productivity growth due to the waste of excess qualifications and unmet self-actualization

At the societal level, underemployment may contribute to suboptimal levels of output and productivity growth due to the waste of excess qualifications and unmet self-actualization: the productivity of overqualified workers in jobs not demanding their level of education and development does not exceed the productivity of workers having the specified qualifications in these scenarios. Moreover, underemployment may result in a crowding out effect

<sup>19</sup> Based on literature review in Hamilton, L.K. (2011). *A Model of Perceived Underemployment Among Immigrants In Canada*, School of Graduate and Postdoctoral Studies, University of Western Ontario, pp. 9-12.

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## A thorough examination of the prevailing causes of underemployment in Canada has not been undertaken

of lower-skilled workers as employers that are under-employing overqualified individuals tend to adjust upward their qualification requirements for the lower-skilled job pushing out lower-educated individuals to accept, in their turn, jobs below their level of skills.<sup>20</sup>

Although consequences of underemployment are well understood, causes of this phenomenon are less thoroughly examined; however, a number of theoretical lines of thought are typically identified when exploring the driving factors of underemployment. Allocation theory suggests that the shift in the employment structure towards higher level of formal qualifications is influenced by changes in supply and demand of workers with different levels of education, technological progress, and heterogeneity of workers. According to this theory, allocation of workers with different levels of education is regulated by wages which reflect the scarcity of various levels of education. An increase in supply of higher educated workers without a matching increase in supply of higher-skilled jobs will shift the wage balance down and make higher-skilled workers more affordable for employers supplying occupations that require lower levels of skills.

An alternative explanation sees technological progress as the driving factor of underemployment. An introduction of new technologies in a specific occupation will increase the complexity of tasks performed in that occupation and raise the optimal level of education of those employed in that occupation. At the same time, the increase in productivity achieved due to technological change may reduce employment within the occupation and push workers previously employed in this occupation to seek employment in lower-skilled jobs. The fact that underemployment affects only some, but not all workers having a given level of education is explained through the heterogeneity of workers. As a given qualification typically represents a spectrum of skills, underemployment measured based on the level of formal education does not reflect the true quality of worker's qualifications and thus is not necessarily indicative of suboptimal allocation of workers.<sup>21</sup>

Notwithstanding the theoretical explanations of underlying factors shaping underemployment, a thorough examination of the prevailing causes of underemployment in Canada has not been undertaken; similarly, youth underemployment itself has not been studied in specifics. In the absence of these data, the further discussion aims to reflect on a few elements that may represent contributing factors but also be part of prospective solutions

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20 Borghans, L. and Grip, A. (2000). *The Debate in Economics about Skills Utilization*. Maastricht University, available at <http://ideas.repec.org/p/ner/maastr/urnnbnlui27-12774.html>

21 Borghans, L. and Grip, A. (1999). *Skills and Low Pay: Upgrading or Overeducation?* Maastricht University, Research Centre for Education and the Labour Market, pp. 15-26, available at <http://edocs.ub.unimaas.nl/loader/file.asp?id=510>.

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for youth underemployment regardless of its underlying cause. These factors include the overall structure of the Canadian economy and industries, youth mobility, and the efficiency of labour market information.

## 5.2. Contributing Factors Influencing Youth Underemployment

### 5.2.1. Canada's Industry Structure Does not Shift Towards Industries Requiring Higher-skilled Workers

As may be expected, the Canadian economy and its industry composition undergo constant evolution influenced by a wide range of factors including technological advances, shifts in consumer preferences, changes in availability of inputs, and increasing competitive pressures from external markets. Over the past several decades, one of the most noticeable outcomes of these changes was the de-industrialization of the economy that diminished the role of manufacturing and other goods-producing industries yielding room to a more intense economic activity occurring in service-producing industries.

Another major shift in industry composition occurred due to the increase in world commodity prices that began in 2003 and generated a resource sector boom in Canada. The expansion of the resource sector triggered complex adjustments in other sectors of the economy as many non-resource industries increased their presence powered by the rising spending capacity of those involved in the resources sector. Throughout this reallocation, manufacturing has undergone further adjustments with some industries gaining in their share of the economy (for instance, machinery and equipment, and computer and electronics) whereas other manufacturing industries retracting (this was the case for forestry and textile).<sup>22</sup>

The overall strong growth achieved by the Canadian economy over the past two decades may suggest that adjustments in industry structure have had a positive effect as the total income in the economy has exhibited robust growth. However, the corrections in how production resources (and particularly labour) are allocated across industries were less favourable for earnings of individual workers. As seen in Figure 11, the proportion of workers employed in industries with above-average earnings declined by five percentage points between 1991 and 2011 signifying a shift of the industry structure towards lower-wage sectors and lower demand for skills.

The proportion of workers employed in industries with above-average earnings declined by five percentage points between 1991 and 2011

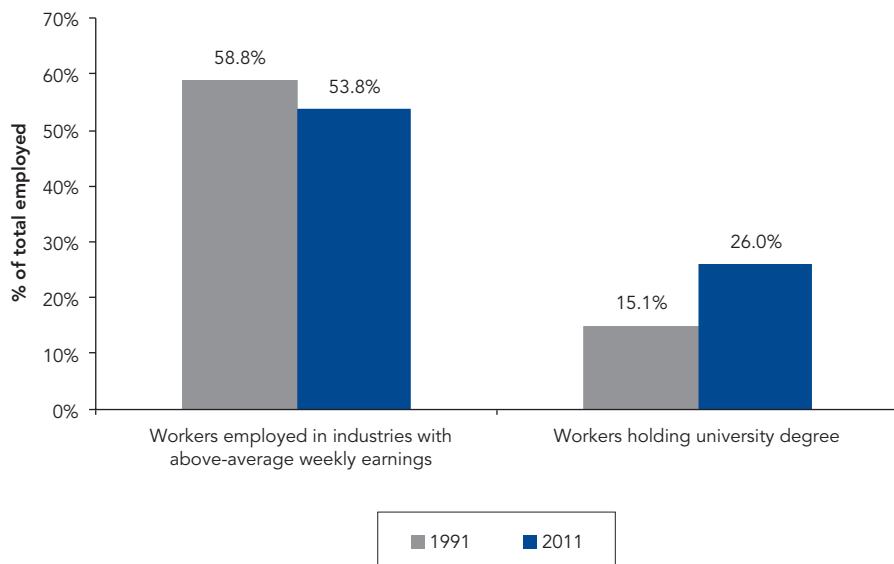
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22 Macdonald, R. (2007). *Not Dutch Disease, It's China Syndrome*, Statistics Canada, Catalogue no. 11-624-MIE – No. 017, p. 6.

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**Figure 11 – Employment in Industries with Above-average Weekly Earnings – Canada, 1991 and 2011**

Industry restructuring may have contributed to higher incidence of underemployment of workers in different age groups including youth



Source: CANSIM Tables 282-0004, 281-0024 and 281-0027, CGA-Canada calculations.

Naturally, lower-wage industries offer lower-wage jobs that require relatively lower level of skill to perform job-related duties. As the educational attainment of the Canadian labour force has increased, industry restructuring may have contributed to higher incidence of underemployment of workers in different age groups including youth.

### 5.2.2. Youth's Interest in Interprovincial Mobility Has Declined

As sectors of the economy are disproportionately distributed across the country, restructuring and adjustments in different industries may create significant variations in labour market outcomes particularly during recessions and periods of economic slowdown. Increasing unemployment and underemployment, declining earnings as well as emergence of better labour market conditions elsewhere are typical forces that propel interprovincial migration. At the individual level, mobility allows for improvements in the economic circumstances of those whose skills or aspirations are a poor match for their current job or location.

Historically, youth has been a highly mobile segment of the Canadian population accounting for some 40% of all adult individuals leaving their home province seeking to settle in another region in 1980. However, the willingness of youth to reallocate has declined significantly over the past decades; in 2011,

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youth accounted for only 23% of all adults that migrated from one province to another.<sup>23</sup> Although migration patterns subdued for individuals of all ages, youth was the major driving force accounting for the overall weakening in workers' movement across provinces.

Such events as starting post-secondary studies, entering the labour market and changing marital status are typically gauged as essential factors prompting youth mobility.<sup>24</sup> Among these factors, enrolment in post-secondary education has undergone by far the most remarkable changes as the number of full-time university students has more than doubled since 1980, and part-time enrolment was up 16% in 2010. A large part of this increase took place in the 1980s and 1990s when the proportion of students in the youth population increased from 41.4% in 1980 to 61.7% in 1997. However, youth interprovincial migration in those years was rather unstable with a number of periods of ups and downs. The 2000s, in turn, saw a more stable trend in the proportion of students among youth; however, the incidences of interprovincial migration among youth (measured relative to the overall youth population) declined sharply as less youth moved seeking to improve their career options (top graph of Figure 12). Unlike youth, migration patterns observed among young workers were overall much more stable throughout the past three decades and thus maintained a stronger orientation towards the labour market (bottom graph of Figure 12).

Recognizing that industry concentration and labour market conditions differ greatly across regions, the declining interprovincial mobility of youth lessens the efficiency of the labour market in resource allocation and matching job searchers and employers.

### **5.2.3. Efficiency of Labour Market Information Can Be Improved**

The extent of underemployment is greatly influenced by the business cycle and demand side constraints. For instance, those in involuntary part-time employment may transition in this category from full-time positions as employers reduce the number of hours worked due to deteriorating business conditions or restructuring. However, underemployment may also reflect the frictions that exist due to search costs experienced by individuals and firms, and the efficiency of labour market information in facilitating matching and adjustments for labour market participants.

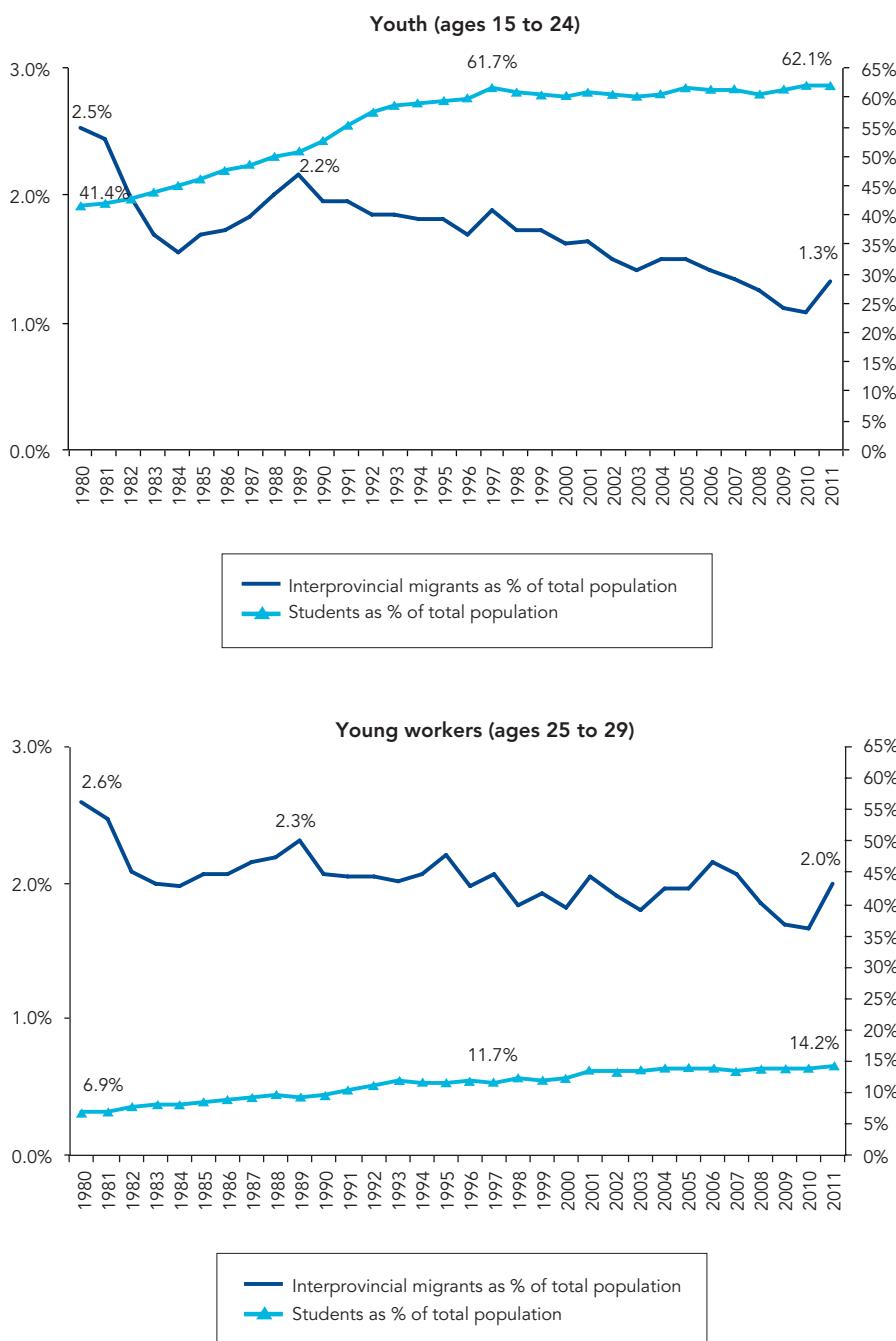
Youth accounted for only 23% of all adults that migrated from one province to another in 2011; this proportion stood at 40% in 1980

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23 Based on CANSIM Tables 051-0012 and 051-0001, CGA-Canada calculations. The year is based on the period from July 1 and June 30.

24 Dion, P. and Coulombe, S. (2008). *Portrait of the Mobility of Canadians in 2006: Trajectories and Characteristics of Immigrants*. Report on the Demographic Situation in Canada. Statistics Canada Catalogue no. 91-209-X.

**Figure 12 – Migrants and Students Among the Youth and Young Worker Population – Canada, 1980-2011**



Note: The number of students is for the period from July 1 to June 30 and reflects full- and part-time students during school months. The term “total population” refers to the total in each age group.

Source: CANSIM Tables 051-0012, 051-0001 and 282-0095, CGA-Canada calculations.

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Since the fourth quarter of 2010, firms have been actively expanding their hiring intentions in all regions and industries in order to meet expected sales growth or as part of new projects. Statistics collected by the Bank of Canada's Business Outlook Survey show that the number of businesses planning to raise employment over the next 12 months exceeds by far those expecting their firm's level of employment to decline. In fact, the balance of opinion on employment – the percentage of firms reporting higher expected growth in employment minus the percentage of those reporting slower growth – registered in the second quarter of 2012 was the highest since 1998 and stood at 53%. This was not a one-time-hike: since 2010, the balance of opinion on business hiring intentions was at levels similar to those observed during the years of strong economic expansion (i.e. 2005-2007).<sup>25</sup>

In addition to intentions, some actual positive changes took place in the aftermath of the most recent recession. As was discussed in Section 3.1, the unemployment rate declined for workers of all age groups. Moreover, thousands of new jobs that were created in the past several years were primarily made up of full-time employment: 84.4% of the employment growth that took place in 2009-2011 was due to the increase in full-time jobs.

Given these positive changes, the absence of noticeable improvements in the underutilization of youth labour (as well as that of other age groups) may suggest that the underlying issue relates not only (and probably not as much) to the insufficient number of job opportunities, but also to the process of matching job searchers and employers. The availability of efficient labour market information is important in facilitating this matching process.

The currently in place Labour Market Information (LMI) system is an active labour market adjustment program that is used to coordinate labour market adjustments. LMI refers to any data, information or analyses that can assist labour market participants and policy-makers in making informed decisions or plans related to learning and training, job searches and career planning, recruitment and retention, public policy programming, and workforce investment strategies.

Overall, Canada's LMI system is recognized as a high quality service enabling the satisfaction of a large number of needs of labour market participants. However, the consultations undertaken by the Advisory Panel on Labour Market Information (LMI) in 2009 revealed that a number of challenges continue to persist. Specifically, basic information gaps and mismatches continue to exist as information provided through the system does not have

**The underlying issue of underemployment may relate not only to the insufficient number of job opportunities, but also to the process of matching job searchers and employers**

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25 Bank of Canada (2012). *Business Outlook Survey*, Summer 2012, Chart 4.

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**Information provided through the labour market information system does not have sufficient level of detail at the level of specific occupations and geographical regions**

sufficient level of detail at the level of specific occupations and geographical regions. As such, it does not always lead to an effective match in labour supply and demand.<sup>26</sup> Naturally, these imperfections may be contributing to underemployment trends.

Summing up the discussion above, the following two points are deemed to be important. First, consequences of underemployment are well understood and documented in analytical literature; in turn, causes of underemployment are less often discussed in detail, particularly as they pertain to the Canadian labour market and to specific age groups of workers. Second, a number of factors may indirectly contribute to the persistence of youth underemployment. Specifically, the changing industry structure of the Canadian economy shifts demand for skills towards lower-skilled workers even though the supply of higher-skilled workers continues to increase. The decreased interprovincial mobility of youth may lessen the effectiveness of matching job searchers with job vacancies. The localized inefficiencies in the LMI system may impede improvements in youth underemployment.

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26 Advisory Panel on Labour Market Information (2009). *Working Together to Build a Better Labour Market Information System for Canada*.

# Conclusions

The analysis in the preceding sections has intended to provide insights into the recent trends in youth unemployment, the level of hardship experienced by youth in the labour market, the presence and extent of youth underemployment, its causes and consequences as well as factors that may indirectly contribute to underutilization of youth skills and abilities. During this examination, a number of contentions have been exposed.

## **Although youth unemployment is relatively high, it does not present an alarming issue**

Youth has always experienced harder labour market conditions and a higher unemployment rate when compared to workers in other age groups; however, the recent dynamic of youth unemployment exhibits a number of positive trends. The peak level of youth unemployment registered during the most recent recession was noticeably below that experienced in previous recessions; the magnitude of the surge in unemployment was also much more trivial. Youth unemployment is largely short-lived as most of unemployed youth find a job within the first four weeks of unemployment; moreover, incidences of long-term unemployment are relatively rare among youth. For the majority of youth, unemployment is a transitory state between school and work and only a small fraction of jobless youth enter unemployment as a result of involuntary layoffs. The projected decline in the youth population that will unfold over the next 20 years may further improve the unemployment rate of youth whereas expanded employment of older workers is not expected to negatively impact youth labour market prospects as the competition at the level of specific occupations between the two age groups is relatively low.

## **The assumption that youth is disadvantaged in the labour market may not be always correct**

Youth fares noticeably better than young and mature workers in a number of areas. The average duration of unemployment experienced by youth is at least twice shorter than that endured by young and mature workers. Youth is also twice less likely to encounter a long-term spell of unemployment compared to workers in other age groups. Likewise, youth less often enter unemployment as a result of a permanent layoff initiated by the employer which represents a prevailing route to unemployment for mature workers. During the economic recovery, quality of youth jobs improved as youth's presence in higher-wage occupations grew at a much faster rate when compared to that observed in middle and lower-wage occupations. Although young workers experienced a

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similar positive trend, the number of higher-wage occupations that employ mature workers shrank during the economic recovery yielding to the expansion in the number of lower and middle-wage occupations.

**Underemployment represents a significant issue in the youth labour market; it manifests through both underutilization of skills and underutilization of labour**

A number of factors point to the presence of underutilization of skills among Canadian youth. First, the gap between the pace of improvement in the level of educational attainment of youth and the quality of jobs that employ youth (measured in terms of the skills level required) continues to grow. Second, the gap in unemployment rates experienced by youth having different levels of education (particularly those with post-secondary certificates and those with university degrees) has diminished significantly reducing the labour market premium on higher education. Third, skills of a large proportion of youth having university degrees are underutilized as they are employed in occupations not commanding post-secondary education. This situation is particularly irrational as public policy makes a noticeable effort in encouraging increasing levels of enrolment in post-secondary education, engagement in life-long learning, improving literacy, and otherwise enriching skills and knowledge of individuals.

Underutilization of labour among youth is likewise extensive. During the most recent recession, incidences of involuntary part-time work increased among youth nearly two fold compared to a decade ago. In turn, the proportion of youth willing and available to work but not looking for work as they believed that suitable employment was not available went up nearly two fold in the past 3 years. Together, these two groups constituted some 4% of the youth labour force.

**The problem of underemployment is not unique to youth, but is experienced by workers of all age groups**

Underemployment is common not only among youth but also among young and mature workers; however there is no consistency in whether youth fares better or worse when compared to other age groups. For instance, disconnect between the improvements in the levels of educational attainment of workers and the degree of changes in the quality of jobs available in the economy was much more pronounced among young and mature workers than among youth. However, the underutilization of skills in specific occupations was more often present among youth employees when compared to their older counterparts. Likewise, the surge in the number of involuntary part-time workers and discouraged searchers during the most recent recession was more evident among youth than in other age groups.

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**The consequences of underemployment are experienced by individuals, but may also spill over and affect businesses and the economy as a whole**

Although the hardship experienced by an individual due to underemployment is often seen as more moderate compared to difficulties endured due to unemployment, underemployment is associated with a number of negative consequences for both individuals and the economy. The consequences of underemployment for an individual may appear through the erosion or loss of skills, knowledge and abilities, diminished current and life-long income, job dissatisfaction and emotional distress which, in turn, may lead to deteriorating health. At the level of the economy, underemployment diminishes the potential level of the nation's well-being as the level of utilization of labour's skills, experience and availability to work remains at sub-optimal levels.



In search for the right balance between individuals' responsibility to actively seek the most effective application of their skills and abilities in the labour market, and public and workplace authorities' role in relieving labour market frictions and adjustments, a number of improvements can be suggested to alleviate the presence of youth underemployment in Canada.

### **Improving understanding of optimal levels of educational attainment**

It is often said that human capital is the most important constituent in driving productivity and competitiveness. As Canada's performance in those two areas has waned, an overarching belief has emerged that the ability to achieve growth will, in significant part, be found through improving, upgrading and otherwise enhancing skills and human capital of Canadians. Although the logic of this assumption seems to be correct, practice shows that increasing levels of education and skill do not necessarily translate into productivity advancement and more efficient use of skills. The lack of improvements may be rooted in inadequate match between employers' needs and workers skills, as well as in the overall oversupply of skilled workers.

Improving the connection between workers' skills, educators and employers may assist in better tailoring the quality of the workforce to the needs of businesses. School-employer partnerships can play a role in helping youth to make informed choices of learning pathways but also in imparting more accurate information regarding the expectations and skills needs of employers. Such partnerships may also facilitate the information flow regarding the very specific, localised needs that are present in some communities. Refining the ability of the Labour Market Information system to provide information and projections in greater detail than at the national and provincial levels may likewise facilitate a greater level of harmonization between workforce skills and employers' needs.

It is now apparent that university students tend to choose certain academic programs over others. Such fields of study as social and behavioural sciences and law; business, management and public administration; and humanities have been the prevailing fields of university enrolment for decades. A constructive, needs and ability based approach of career advisors, educators and parents in guiding youth in their career choices may be instrumental in ensuring that the level of skills present in the economy is adequate (and not excessive). Imbedding a bridging mechanism in various programs may, in

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turn, help to facilitate students' adjustments should the needs of the labour market noticeably change.

### **Improving the mix of jobs supported by the Canadian economy**

Outside of the public sector, job creation is primarily driven by the demand for goods and services generated by the Canadian economy. As such, a better mix of jobs that would exhibit a greater reliance on higher-skilled, higher-wage jobs cannot be achieved unless demand (either internal or external) for Canada's higher value-added goods and services expands. That, in turn, is not achievable without improving competitiveness of Canadian businesses. At present, though, the opposite trend is in place – increased import penetration into Canada and a loss of market share by Canadian exports abroad point clearly at declining levels of competitiveness of Canadian businesses.

The government's ability to implement adjustment measures seeking to restore competitiveness is fairly limited and it is becoming increasingly clear that businesses will be primarily relied on to employ strategies leading to increased productivity at the firm level. Those strategies may include investing in machinery and equipment, particularly in information and communications technology, investing in research and development (R&D) and innovation, and aggressively competing in foreign markets.

Government, in turn, can be proactive in efforts to support investments and innovation by maintaining Canada's tax competitiveness and ensuring sustainable fiscal policy, open trade policy that improves access to key markets and lowers cost of intermediate inputs through tariff reduction.

### **Improving understanding of causes of youth underemployment**

Launching a research initiative focused on the issue of underemployment in Canada may improve significantly the decision making capacity of policy-makers as well as educators and labour market participants. To be informative, such a research initiative should aim at understanding the social, economic and educational profiles of underemployed Canadian workers as well as the geographical prevalence of incidents of underemployment. Examining empirical evidence that may shed light on causes of different types of underemployment is especially important for developing adequate measures and strategies tackling the issue of underemployment. Identifying 'scarring' effects of youth underemployment as well as its impact on the likelihood of experiencing unemployment may likewise constitute part of this initiative.

Involving not-for-profit groups engaged in public policy analysis, as well as businesses, educators and community organizations in the research initiative may enrich the outcome of this undertaking. Representing views of different

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stakeholders, these groups may bring a unique perspective of marginalized and disadvantaged groups as well as have a better understanding of local issues related to underemployment.

### **Increasing individuals' awareness regarding underemployment**

The incident of unemployment or involuntary part-time employment is well defined and unmistakably clear for the individual experiencing it. However, recognizing underutilization of skills may be more challenging for both the individual and employer as it may involve such subjective elements as employees' self-assessment of qualifications, judgement regarding the job's complexity and the quality of the match between duties performed and formal employment requirements established. In the absence of the awareness, corrective actions cannot be taken to improve the situation.

Adjusting active labour market programs that are tailored specifically for youth to increase individuals' ability to recognize and respond to incidents of underemployment and underutilization of skills may be effective in mitigating persistence of youth underemployment. Specifically, programs that aim at improving youth job search skills may be enhanced by encompassing awareness initiatives regarding underemployment and aiming at increasing youth's ability to distinguish between incidents of underemployment and other matters that may lead to job dissatisfaction and emotional disengagement from the employing company.



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