

OBSERVATION

TD Economics



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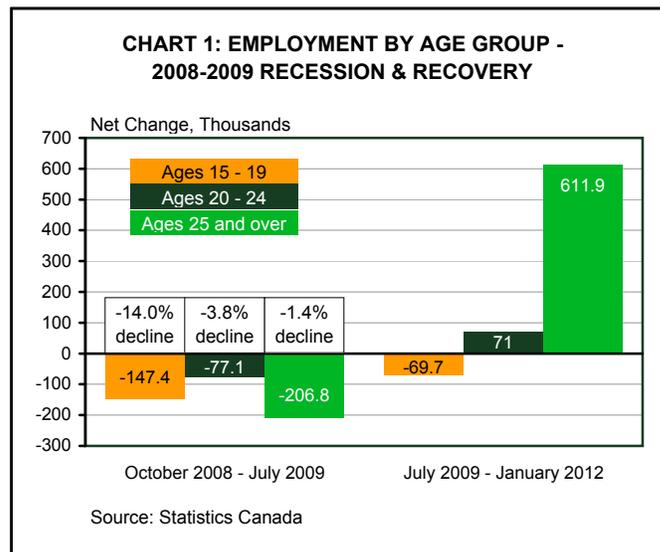
THE PLIGHT OF YOUNGER WORKERS

Highlights

- The economic recovery has been almost non-existent for younger Canadians (those aged 15-24 years). They accounted for more than half of all net job losses during the recession and employment still stands some 250,000 below its pre-recession peak. In contrast, jobs held by those over the age of 25 years are more than 400,000 above its level prior to the downturn.
- Compared with previous generations of younger workers or those elsewhere in the world, things might not look so grim. However, today's youth face some significant challenges.
- The fact of the matter is that new Canadian graduates will face challenging labour market conditions for several more years – as is always the case for those most vulnerable in the labour market.

Two weeks ago, TD Economics released a brief report (“Older Workers Stampede into the Labour Market”) highlighting the surge in job creation among Canadians over 60 years of age during the recession and subsequent recovery. In this report, we chronicle the fortunes of those at the opposite end of the age spectrum (those aged 15-24 years). The story for young workers has been the mirror image of their older counterparts. Of the more than 430,000 net jobs lost over the course of the recession, more than half were concentrated among those under the age of 25 years. This occurred despite the fact that they only accounted for one-in-six (16.5%) in the labour force. Even after the recession's end, the recovery has been almost non-existent for youth in aggregate – just 1,300 net jobs have been added over the last two and a half years. In contrast, employment among those over the age of 25 years is currently a striking 400,000 jobs above its pre-recession level.

As chart 1 reveals, it is the very young that have suffered the worst. For those aged 15 to 19 years, almost 250,000 jobs have been shed since September 2008, with 70,000 of those having been lost since the beginning of the recovery. For those aged 20 to 24 years, the situation is slightly better as employment is just shy of its pre-recession level – but even then, countless youth have become discouraged by both the lack of opportunity and the difficulty of getting their foot in the door. Many have simply stopped trying and have left the labour market. The participation rate (the share of the population either working or looking for work) for 20-24 year olds is still about two percentage points lower than its pre-recession peak, while that of 15-19 year olds hit a 14-year low this past January. In total, roughly 175,000 young Canadians have left the labour force since the recession began. Not surprisingly, many have returned to school to either



upgrade their skills or earn another degree. Data from the Association of Universities and Colleges of Canada showed that the enrolment rate in both undergraduate and graduate university programs was markedly higher between 2008 and 2011 than in previous years, coinciding with the poor job prospects of new graduates (chart 2).

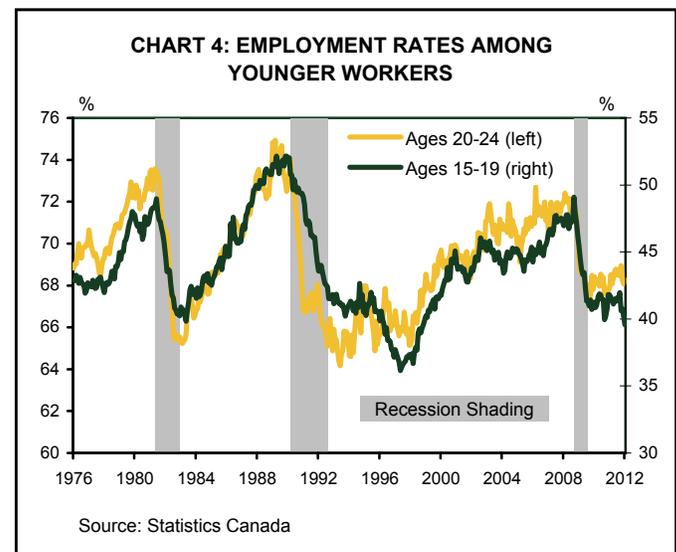
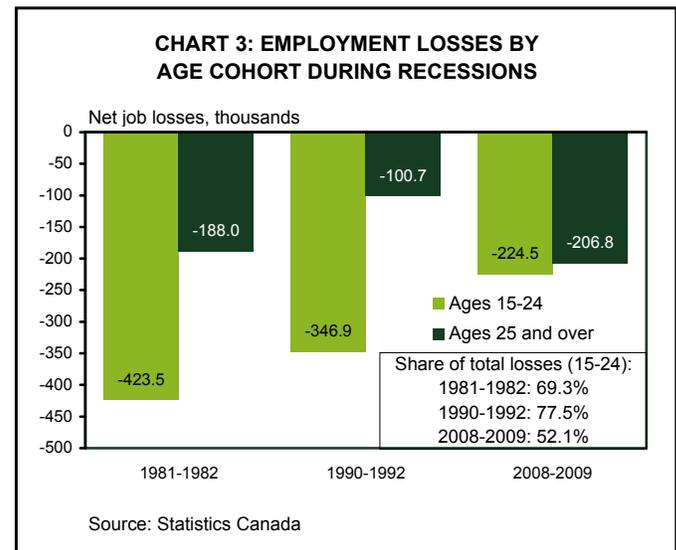
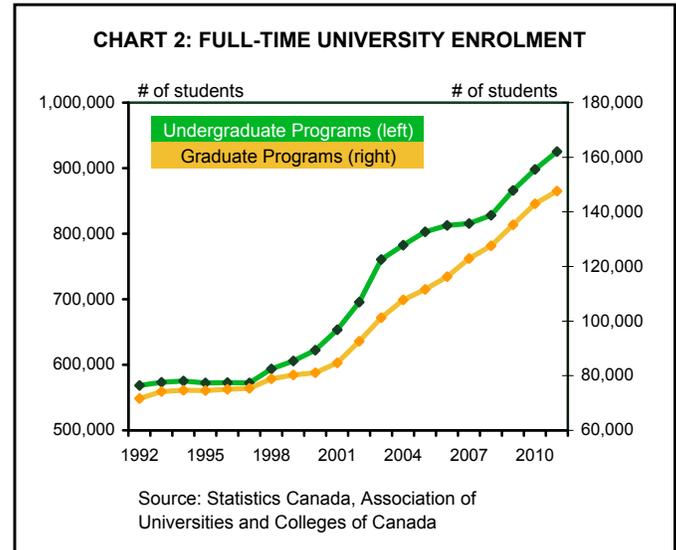
How does this stack up – historical and international comparisons

There are two comparisons we can make regarding the current experience of younger workers to provide some perspective: relative to their international counterparts and to previous generations of younger Canadian workers. Historically, younger workers have always been the most vulnerable during economic downturns. Unstable work arrangements, less tenure, and fewer skills than their older counterparts all imply less job security. Interestingly, those under the age of 25 years have fared better in this recession than in previous ones. The disproportionate share of job losses among youths was more glaring during both the 1980s and 1990s downturns where upwards of 77.5% of the total job losses were borne by younger workers (chart 3). Moreover, job growth during the 1990s recovery was dramatically slower for both the 15-19 and 20-24 year age groups. The employment rate (the employed share of the population) did not even begin to recover until well into the late-1990s (chart 4), giving these years the moniker of the “jobless recovery”.

Relative to their international peers today, Canadian youths are also faring better. In some of the worst hit countries in Europe such as Spain, Greece, or Ireland, youth unemployment rates have reached as high as 51.4%. In Canada, it is 14.5% – incidentally, this is just a touch over its long-term average of 14.2%.

Younger workers are the most vulnerable

Nonetheless, today’s younger workers still face a difficult time. Part of the reason is that they face some significant challenges. In addition to competition within their own age group, they now must compete with older workers looking to reenter the labour market and those more experienced who lost their job during the recession. This occurs as many older Canadians are delaying retirement and preventing job vacancies from building. Case in point is the retail sector, an industry traditionally associated with younger part-timers, but is now where older workers (those aged 60 years and over) have begun to increase their footprint.

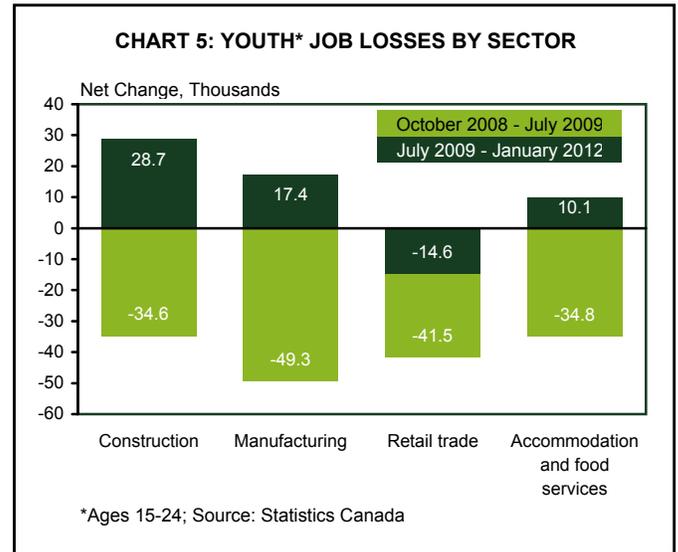


Job losses among youths were concentrated in four sectors, where more than 160,000 of the job losses occurred (chart 5). However, of the four, retail is the only industry to have continued declining since the recession ended. This, in part, reflects the unique challenges faced by this generation of younger workers.

Timing is everything

Recessions have always had serious consequences for younger workers. Several studies have shown that those who graduate during a recession take a substantial hit to their initial income that does not close for many years. Unemployment immediately post-graduation erodes a graduate’s skills and competitive edge. As a result, a lesser job opportunity is taken and many become underemployed during the first critical years of their careers. It has been estimated that a 1 percentage point increase in the unemployment rate equates to an initial wage loss of 6-7%¹ and that it can take anywhere from 10 to more than 15 years to close that gap².

The main conclusion of this report is that Canada’s youth are facing difficult conditions when entering the labour market or in their first years of employment. While



it is challenging, it is not as bad as some make out as youth labour market conditions were worse in prior recessions. And, Canadian youths are not facing the terrible prospects of their counterparts in Europe and the US. Nevertheless, it is clearly evident that the Canadian youth are facing an uphill battle, which will persist for some time.

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Endnotes

- 1 Kahn, Lisa B. 2010. “The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy.” *Labor Economics* 17(2), pp. 303–316.
- 2 Oreopoulos, Philip, Till von Wachter, and Andrew Heisz. 2006. “The Short- and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates.” NBER Working Paper 12159.

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