TD Bank Financial Group

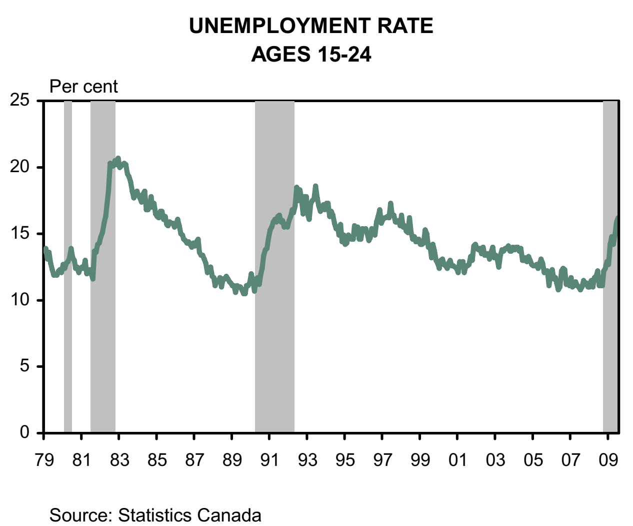
TD Economics

Observation

September 2, 2009

CANADIAN JOB MARKET: ONE OF THESE THINGS IS NOT LIKE THE OTHERS

When the Labour Force report was released last month, there was a lot of focus placed on the high level of unemployment among Canadian youths. However, the data in this economic cycle are completely consistent with trends seen in the past two recessions. What caught our eye, however, was the sharp deterioration in the job prospects for those in the prime working age group of 25-54 years. In addition, the data indicate that the number of weeks workers are remaining unemployed is rising at a faster rate than the previous two recessions. These two experiences do not conform to past recession cycles, and that could have direct bearing on Canada's economic recovery. Irrespective of the likelihood that an economic recovery was underway in the third quarter, we believe Canadian workers will shed jobs through the end of this year and face a sluggish job market in 2010.



HIGHLIGHTS

- **Young job seekers feel the brunt of the recession, but this is consistent with history...**
- **...unlike the prime working age population (25-54 years old), who are experiencing rapid deterioration in job demand, beyond what was seen in the past two recessions**
- **Demand for workers aged 25-54 is a barometer for the timing/strength of economic recovery**
- **Average number of weeks workers are remaining unemployed is also rising faster than prior two recessions**

Tough times for young workers

Those aged 15-24 years of age faced a 16.2% unemployment rate in August, with particular difficulties borne by the younger 15-19 age bracket where unemployment reached 21%. Both figures made a media splash, despite the fact that neither is out of sync with the trends seen in past recessions. In fact, the unemployment rate for young job seekers in August was lower than that of the late 1990s (a non-recession period). This comment isn't meant to dismiss the hardships of finding a job among Canada's youth, but rather to point out that it is a cyclical effect that is completely consistent with the current economic cycle in every way – be it the contraction in the labour force, jobs and participation rates.

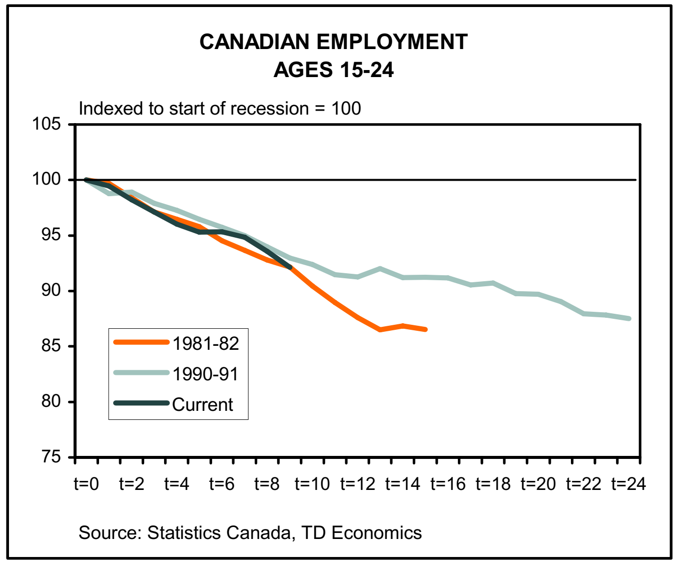
And, if history is repeated, which we think it will be, it's not going to get any easier for young workers for some time to come. In the past two recessions, the unemployment rate for 15-24 year old workers did not peak until two months following the end of the recession and it remained sticky at elevated levels for a year and a half. Worse yet, demand for young workers is traditionally among the slowest to recover. After the 1981-82 recession officially ended, it took 8 months for the labour market to show some life for 15-24 year old job seekers. Times were even tougher following the 1990-91 recession. It took nearly 6 years for job growth to sustain an upward path for the 15-24 age bracket and even longer to return the level of jobs seen at the end of the recession.

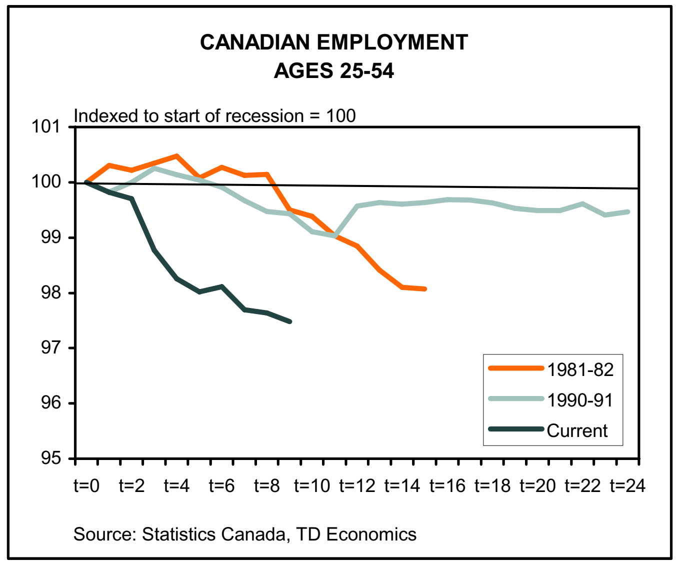
We doubt the job cycle this time for Canada's youth will parallel the 1990s experience, particularly because that recovery was slower than what we anticipate this time around. In addition, the economy faced the challenge of much higher interest rates, the central bank was trying to establish itself as a serious inflation fighter and the government was aggressively trying to reign in larger fiscal deficits (as a share of the economy) than what we believe will materialize in this cycle. All of this impeded economic growth. During 1994-1995, interest rates doubled to 8%, economic activity stalled out again in 1995-1996 and all of this threw up more road blocks for Canada's youth seeking employment. Even though we don't anticipate a repeat of the labour market hardships of the 1990s for the 15-24 age group, it will likely be the last group of workers to recover, and they could be looking at a lackluster job market throughout 2010.

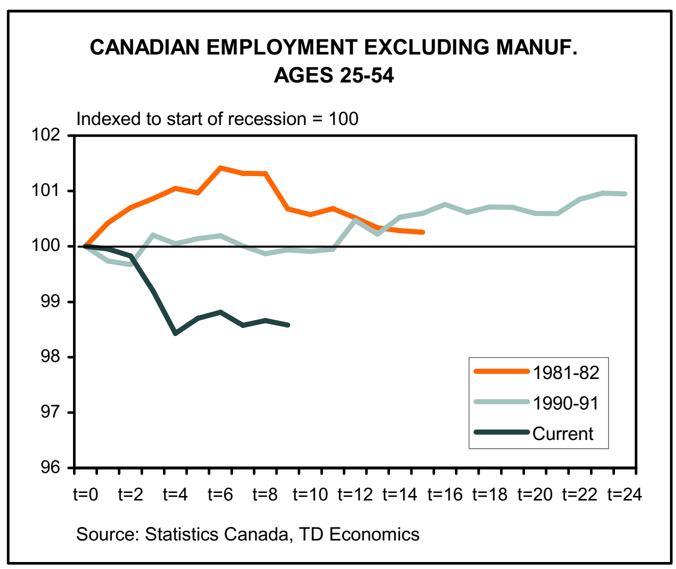
Cut down in their prime

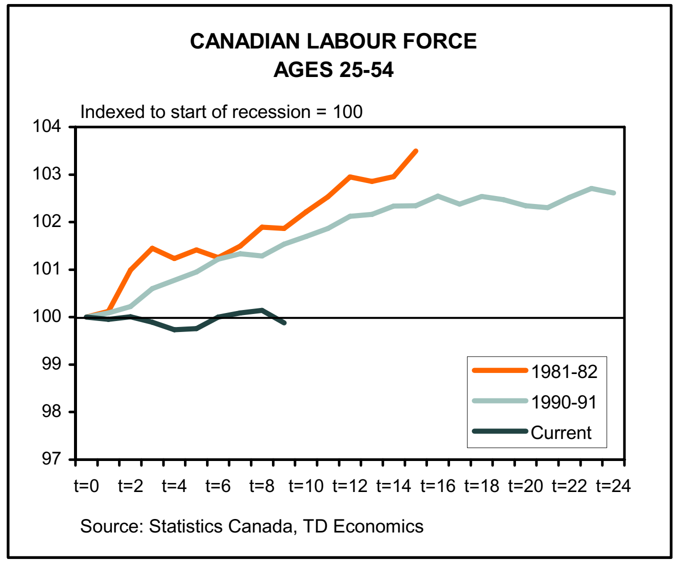
The aspect of recent labour market reports that is not following historical norms during a recession is the prime working age group of 25-54, who have experienced a sharp deterioration in job demand. Ten months into this recession, job losses for this age bracket have occurred at a far more accelerated rate compared to the 1980s and 1990s experiences. And, if you think it's because of the woes of the manufacturing sector this time around, think again. Ten months into the 1980s and 1990s recessions, total jobs excluding manufacturing was still expanding for this age group, as oppose to a 1.2% contraction this time.

It's also deceptive to look at the unemployment rate for this age group at only 7.4% and presume they are considerably better off than past recession cycles with unemployment rates of 9-10%. The unemployment rate is being capped by a lack of growth in the labour force. To demonstrate, if the labour force was expanding at the same monthly rate as the 1990-91 recession, the unemployment







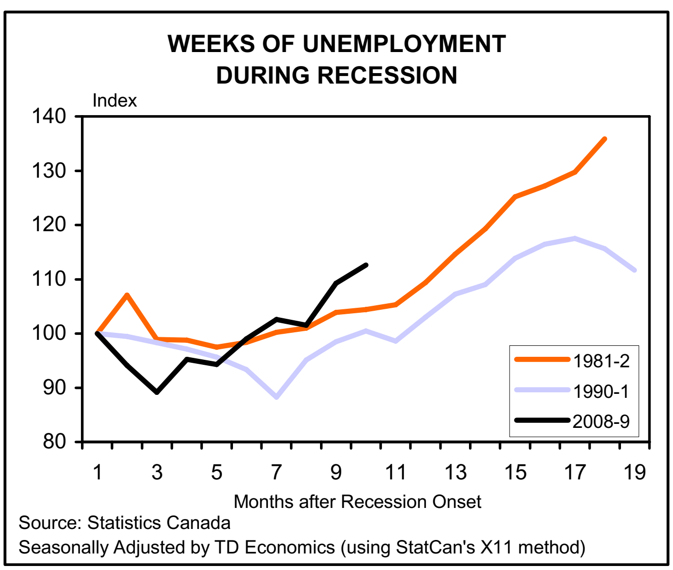


rate for those aged 25-54 would now be as high as 9.4%. Likewise, we would have a national unemployment rate of 10% instead of 8.6%. Now, perhaps it's unreasonable to expect the labour force to expand at the same rate as past recessions, as population growth for this age bracket has slowed demonstrably since the 1990s and 1980s. But, demographics neither fully justify the labour force coming to a complete standstill, nor explain away the accelerated rate of job losses being experienced by this group. In particular, relative to past recessions, employers have been more swift to cut prime-aged workers in the service sector, especially in the industries of health, trade, transportation and FIRE (finance, insurance and real estate).

Why does this matter? Those aged 25-54 represent the bulk (70%) of the working age population, and thus wield a lot of influence on the nation's prosperity, income and spending patterns. In other words, job trends in this age group are indicative of a healthy or not-so-healthy economy.

Employment data for this age bracket has been the first to stabilize following the exit of past recessions. So if you're trying to gauge the timing and strength of the economic recovery, it is this group of individuals who provide the barometer. Within 2-5 months following the official termination of a recession, workers aged 25-54 are back in demand by firms. Given that the Bank of Canada believes the recession ended sometime in the third quarter, it's time to pay close attention to the prime working age group in the coming Labour Force Reports.

The last bit of news we find somewhat disconcerting is that the adjacent graph shows that the average number of weeks workers (of all ages) are remaining unemployed is climbing at a faster rate in this stage of the recession compared to the prior two recessions. If this trend continues coupled with the rapid shedding of prime-aged workers, it will be a double whammy on Canada's job market. It provides further weight to the argument that the recovery in the job market will be sluggish through 2010, long after the broader economic recovery has taken hold. In the 1990s and 1980s recession, it took 2 years or more for the average number of unemployed weeks to peak and level off, and we're likely facing another long-haul this time around.



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