

What's the problem with Canada's youth labour market? Better than 'normal' but still room for improvement

Canada's youth unemployment rate has generated its fair share of hand-wringing over the years. Since 1976, it has never fallen below 10%, even when the economy was strong and overall employment was high. With Canada's job market on a roll, it's worth taking a look at how youth unemployment is faring. The upshot: Canada's youth labour market looks pretty good from a historical perspective, but there is still room to tackle some stubborn longer-run structural challenges. Closing the unemployment gap with the cohort aged 25-54, for example, would boost the workforce by some 170k people, or around 1% of current employment.

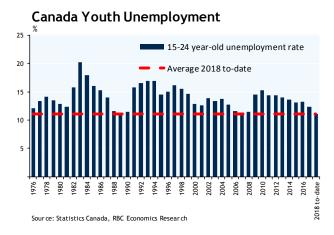
Youth joblessness is historically low

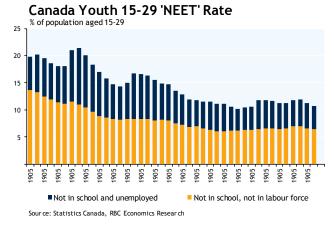
The unemployment rate is hovering at four-decade lows in Canada, at around 5.8% overall. Young Canadians haven't missed out entirely on the party. Youth joblessness has averaged 11% so far in 2018. That is the best start to a year since 1989 and compares with a peak of more than 16% at the height of the last recession. Meanwhile, the gulf between the youth unemployment rate and that of the core-aged 25-54 year-old population stands at about 6%—smaller than the long-run average of 7%.

Canada has more than 700k 15-29 year-olds that are not engaged in employment, education, or training: the so-called NEET category. Those 700k comprise just 11% of the youth population, though. That rate is at a near-record low. What's more, Canada's NEET rate compares favourably with other advanced economies. Only Germany and Japan have a lower NEET rate among the G7 economies according to the OECD.

Some young Canadians aren't working by choice

Youth labour-force participation in Canada has fallen from prerecession levels, but that doesn't reflect discouragement about the economy. Indeed, just 0.1% of 15-24-year-olds report not looking for work because of poor job prospects. Falling labour-





market participation can be largely explained by rising school enrollment: almost 60% of 15-24 year-olds were in full-time school in 2017. And pursuit of education is the main reason that almost half of young Canadians work part-time, compared to about 12% for the population aged 25-54. It's difficult to argue higher enrollment in education is a bad thing for the economy or for long-term job prospects, especially as automation continues to replace lower-skilled jobs.

As for young Canadians who aren't in school, almost 90% were either employed or looking for work last year. That was in line with the participation rate for those aged 25-54. Of those youth not participating in labour markets, more than 90% report they don't want a job.

Youth are hampered by structural challenges both old and new

It has always been more difficult for youth to break into the labour market, and to hold onto secure employment once they get there. Since they have less experience, businesses are more hesitant to hire them. And in the event of a downturn, younger workers have less seniority and so are more likely to be the first employees to be let go. That's why younger workers tend to take the brunt of any economic downturn.

Some newer trends add to those difficulties. The rising share of temporary jobs in labour markets in general means youth might need to change jobs more often than previous generations, at least early in their working lives. Technological change is another. RBC's <u>own research</u> indicates that more than 25% of jobs in Canada will be 'heavily disrupted' by technology in the coming decade.

Part of the solution may lie in an increased focus on skills

While technological change has long disrupted the labour market, a focus on developing transferrable skills may improve labour-market outcomes both now and in the future. That will require some new approaches: better integration between schools, businesses, and governments is almost certainly part of the answer.

Leveraging Canada's high levels of post-secondary education participation is another solution. Labour-market outcomes for those with some form of post-secondary education have always been better than for those without. Incorporating paid work into education programs provides experience and at the same time reduces the work/education trade-off that is an inevitable part of life for students who need to take a part-time job to fund their schooling. Improving labour market outcomes for minority groups under-represented in labour markets would also clearly be beneficial.

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