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# SPECIAL REPORT

## TD Economics



October 22, 2013

### *Executive Summary*

## **JOBS IN CANADA**

### ***Where, What and For Whom?***

#### **Highlights**

- Canada's job record over the past decade has been robust, especially relative to other G-7 countries. Under the surface, monumental longer-term shifts continue to take place, including greater labour force participation of older workers and a gravitation towards more non-standard job structures.
- The notion of a severe labour market skills mismatch has topped the headlines. With data in hand, we debunk the notion that Canada is facing an imminent skills crisis. At the same time, there is some evidence of mismatch across certain occupations and provinces, but the sparse, non-time series data prevent us from saying whether the situation today is worse than in years past.
- Despite the absence of a so-called "burning platform", bold movement is warranted to maintain Canada's standard of living today and into the future. An efficient labour market is a critical element towards achieving this end goal.
- In light of the importance of skills, governments across the country are formalizing their training and jobs strategies. However, governments cannot act alone. Employers, educators and employees need to join the fray. We review several strategies which have already been implemented, but note that many are experiencing varying degrees of success.

Canada's job record over the past decade has been robust, especially relative to other G-7 countries. This performance is even more noteworthy when underlying trends are reviewed: there has been a monumental shift towards employment in non-manufacturing sectors and greater prevalence of work in non-standard job structures. While Canada's overall job creation tally is medal worthy, there have been growing concerns about a mismatch between the types of skills demanded by employers and those possessed by job seekers. Some forecasters have made worrisome predictions of large and persistent labour shortages well into the future. There are also widespread views that the Canadian job market is becoming increasingly polarized and that today's youth will be a "lost generation".

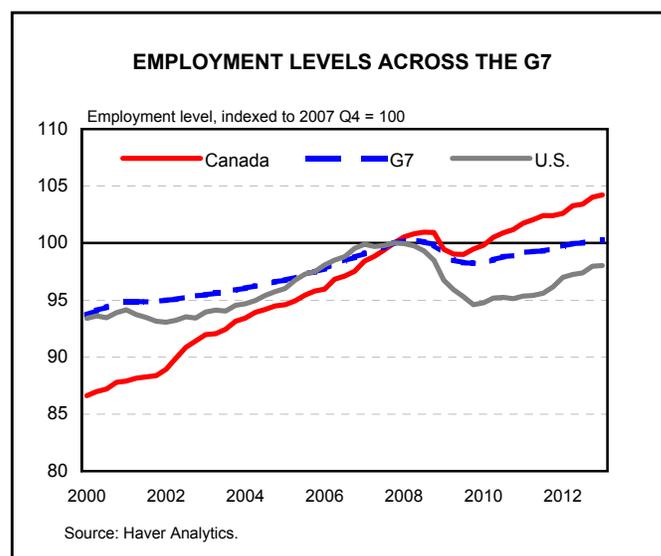
The findings in this report pour some cold water on these perceptions – there is some evidence of tightness across certain occupations and regions, but the analysis failed to provide a real smoking gun. While we find no evidence of an imminent crisis, Canada can do much better to improve the efficiency of its labour market. Greater labour market information and other targeted strategies and policies would help in this regard. Furthermore, a more skilled workforce and efficient labour market is a vital component to achieving and sustaining improved productivity and economic growth over the long haul.

## An eventful past decade

Labour markets are subject to continual change, and this past decade has provided a further case in point. Outstripping their G-7 counterparts by a wide margin, Canadian employers have added to payrolls at a strong rate since the early 2000s. This confidence has been underpinned by a number of factors, including a longer-term upward shift in commodity prices and an extended real estate boom. Other influences include sound macroeconomic, financial and regulatory policies which helped the country weather the economic downturn of 2008-09.

Some relevant trends over the past decade are summarized and explored in more detail in the report:

- Employment gains were not equally shared across sectors and regions. Consistent with shifts in migration flows, job growth has gravitated towards the resource-based west and away from manufacturing-based central Canada and the Atlantic. That said, all provinces except New Brunswick have registered moderate-to-brisk job creation over the past 10 years.
- The balance of the national job gains continued to swing towards large urban centres. With young and highly-skilled workers increasingly desiring the amenities of downtown life, the pronounced suburbanization trend seen in the 1990s has cooled in recent years.
- A degree of polarization (i.e. rapidly-growing demand for high- and low-skilled employment at the expense of medium-skilled jobs) has taken place in Canada, but not nearly to the same extent as that observed in the U.S. This outcome is due in part to the resource and construction booms which have provided support to a number of middle-skilled jobs in this country.
- Older workers are punching well beyond their weight in terms of their contribution to net new employment. At the other end of the age spectrum, the challenges of youth in the job market have intensified since the onset of the recession. The still-elevated youth unemployment rate partly reflects the fact that younger workers tend to be the last to get re-hired during an economic recovery.
- Temporary jobs – especially contract positions – have been on a gradual rise and now make up one-in-seven positions. This upward trend has fuelled concerns surrounding the quality of jobs being created. At the same time, temporary jobs can be appealing, especially



for older workers who are transitioning into full retirement or those workers with young children looking for flexibility.

## Are skills gaps a growing constraint on hiring?

Although Canada has enjoyed a respectable job record over the past decade, there has been growing speculation that employer hiring has been held back by a lack of available workers and/or inadequate skills. Prior to the 2008-09 recession, there was much ink spilt about the challenge of economy-wide skills shortages. Since unemployment increased during the downturn, however, the attention has been more directed at job market imbalances specific to certain occupations and regions.

Perceptions can take on a life of their own without hard underlying facts supporting them. There are six key longer-term developments in Canada's job market where the notion of skills mismatch could have been borne. Some of these myths can be easily debunked, whereas others deserve further investigation.

### Perception #1: Canada's change in industrial mix is leaving workers out of sync with current demands.

Over the past decade, certain sectors have experienced rapid growth (i.e., resources and health care) while others have been in structural decline (i.e., manufacturing). However, it is unclear to what extent these changes have contributed to mismatch and/or worsened since the 1990s, which was another decade of rapid industrial change. The job market ultimately adjusts, but changes can take time.

**Perception #2: Regional growth differences and mobility challenges are constraining labour mobility.**

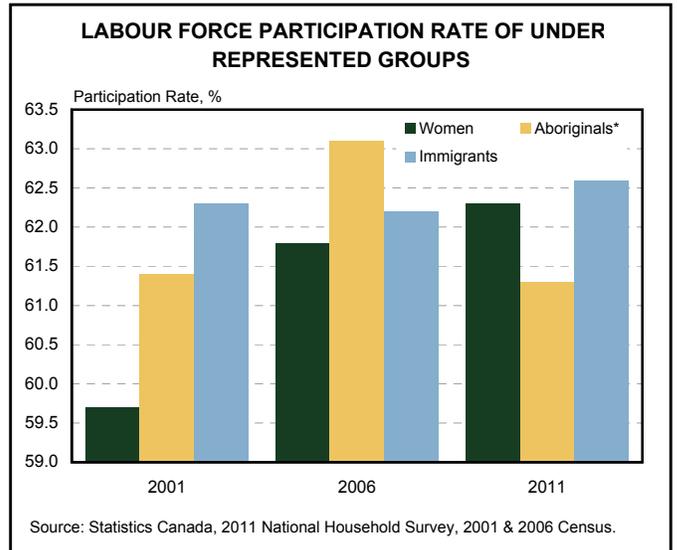
The rapid economic growth in the Prairies has resulted in shortages of many occupations, while other regions are home to surpluses. The number of workers willing to relocate within provinces or live in one jurisdiction and commute to another has increased over the past decade. Yet, the population share of Canadians that have actually moved across provincial boundaries has been stagnant, due in part to challenges related to credential recognition within regulated fields.

**Perception #3: Barriers prevent certain Canadians from fully participating in the labour force.**

Structural impediments to workforce involvement are holding back the labour force participation of Aboriginal peoples, those with disabilities and, to a lesser extent, women. While progress has been made in recent years, the gaps in labour force outcomes relative to the Canadian average are often stark.

**Perception #4: Workers are having a hard time keeping up with the rapid advancements in technology.**

Of the six perceptions, this one has the least merit. While it is true that technology has taken off particularly over the last decade, it is debatable whether the impacts on labour supply from technological advances are any more significant than in prior decades.



**Perception #5: Potential employees are “book smart”, not “job smart.”**

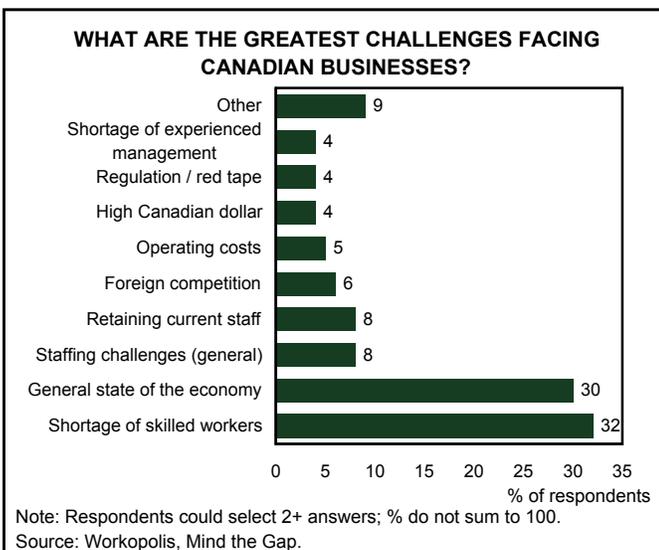
The discussion of skills shortages has moved away from formal education to a broader definition that includes the foundation skills of literacy, math and problem solving in technologically-rich environments and “soft skills”, which include communication and leadership skills. Surveys show that employers are complaining in larger numbers that candidates lack these types of skills which are imperative to success on the job. Yet, according to the OECD, Canada fares reasonably well in terms of the fit of foundational skills of employees with the needs of the job.

**Perception #6: Canada’s post-secondary education system is pumping out the wrong graduates.**

Some believe that the post-secondary system is graduating too many Canadians in areas which are not in demand, thus leaving a large pool of underemployed people. OECD over-qualification and under-qualification rates for Canada relative to other countries provide some supporting evidence. Still, the job market outcomes of recent graduates, including those with liberal arts degrees, are likely better than many Canadians perceive.

**Testing for labour shortages and mismatch**

In order to see how well perception lines up with reality, we carry out a test of the extent of labour shortages and skills mismatch more directly with the relatively limited available data. Several methodological approaches were used, as it is particularly difficult to measure the extent of skills mismatch, if any, given that it is hard to measure skills





outside of education and credentials. Particular interest was placed on occupations that are commonly-perceived to be in shortage (e.g., trades, engineers) to see whether they are exhibiting the usual telltale signs of tightness. We also assess a number of areas alleged to be in excess supply, such as factory occupations and teachers. To perform this analysis, a database was compiled of unemployment rates, wage rates and vacancy rates for around 140 occupations.

Our results uncover some surprises. Occupations widely thought to be in shortage have recorded considerably lower unemployment rates than their counterparts in the surplus camp. Still, vacancy rates outside of some pockets (e.g., trades) are not significantly higher than the national average. They also have not accelerated over the past few years. And strikingly, similar wage gains have been registered in loose and tight markets all across the country.

Given variations in labour market conditions in Canada, we also tested for regional mismatch. Our findings corroborate the view that it does occur: vacancy rates rose more significantly in the Prairies, particularly in those occupations perceived to be in shortage. In addition, we discovered that employers in Alberta and Saskatchewan were also having difficulties filling workers in occupations widely believed to be in surplus, which points to the knock-on effects to the economy from resource development.

The story on the wage data remains curious, as wage gains out west have not increased to the extent that one might have thought given the signs of tightness. A number of factors could be holding back wages, including competitiveness pressures and the preference of employers to use non-wage channels to address hard-to-fill vacancies. We do

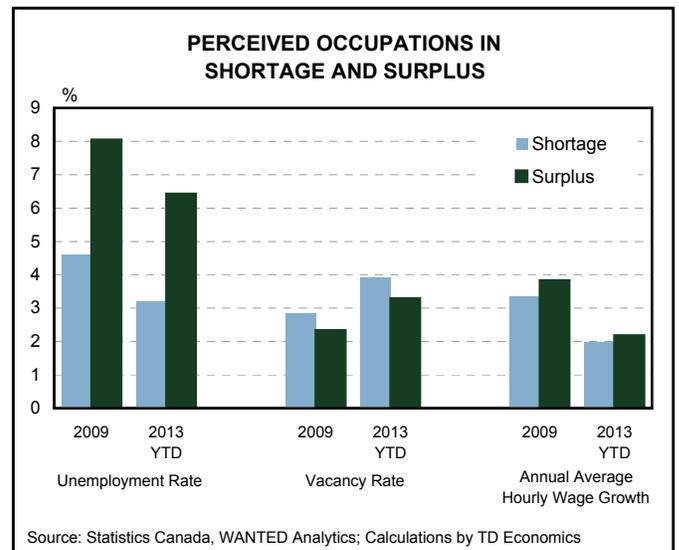
not rule out the possibility that the data are under-estimating wage pressures, as the figures we reviewed do not include bonuses and other incentives, but instead account for just hourly wages, tips and commissions.

**Fears about mismatch are largely forward-looking**

While most of our focus in this report is on the here and now, many of the worries about supply constraints and skills mismatch look well into the future. The consensus view is that over the next ten years, demand for labour will ease compared to its historical trend rate. Additions to the supply side are likely to soften in tandem with labour demand due to an ageing population.

Meanwhile, a number of organizations have issued troubling projections of large and persistent labour market shortages. The Conference Board of Canada has estimated that the country faces a looming shortage of 1 million workers by 2020. A number of other associations – from environmental and engineering, information and communications technology to restaurant and food – have joined the chorus, warning about growing gaps between supply and demand over the next 5-10 years.

Although forecasting can assist with planning and policymaking, there is good reason to look at long-term projections with considerable scepticism. Results are highly sensitive to the assumptions made. Most of the projections assume the status quo, but theory would suggest that market forces would kick in over time and change the underlying dynamic. To the extent that labour market failures and rigidities exist – which is almost certainly the case – the adjustment to a balanced labour market might take longer



than it previously did.

Many of these projections also use growth accounting that is on shaky ground. They start with the notion of some pre-determined growth rate that the economy “should achieve”, deduct trend labour force gains and productivity, and work out a gap in the labour pool that grows over time. However, the economy’s capacity to grow is determined by the labour supply, rather than the opposite.

**A clarion call for action**

A number of inherent weaknesses are likely to limit the labour market’s ability to adjust to structural changes and hold back the economy’s potential to create jobs over the long run. Delaying appropriate actions to maximize labour market efficiency until a “burning platform” emerges is ill-advised and imprudent. There is too much at stake for all Canadians to adopt a wait-and-see approach. In this regard, we were pleased to see the focus on skills and training development in the 2013 government budget season. However, a more concerted effort across not only the federal and provincial governments but employers, employees and educators will be needed to provide Canada with a world-leading workforce for the 21<sup>st</sup> century.

Examples of strategies which could improve the performance of the labour market, now and into the future, include:

- *Employer-led strategies* such as increasing wages where required, promoting other types of incentives and implementing increasingly flexible work arrangements. Furthermore, professional development training is one area in Canada that has not gained much traction.

- *Federal and provincial governments* have attempted to overcome some of the current barriers to training, but consultations are still underway. Recent immigration reforms have been made to better match worker skills with labour market demands. While considerable challenges remain, provincial governments have been addressing some of the existing barriers surrounding labour mobility.
- *Workers* require an in-depth understanding of labour market conditions. A new Job Bank attempts to be an online, one-stop shop in this regard. Better information is required on the nature of job vacancies and students should have clearer views of employment and income prospects by field of study. Greater concerted efforts put forth by all labour market participants are required to obtain gender workplace equality and to boost labour force participation rates of typically under-represented workers (e.g., women, Aboriginal peoples, persons with disabilities).
- *Educators* have recognized some of the shortcomings of the current higher education system, including a lack of flexibility in altering programs to quickly meet the changing demands of the marketplace. There have been some signs that change is beginning to happen on this front. For instance, transferability of credits among universities and colleges and apprenticeship demand has been rising (although completions remain a challenge).

**Bottom line**

Despite Canada’s solid track record in creating jobs, there are inherent vulnerabilities in the labour market and skills development more specifically that are holding back the economy’s potential. Bold and complementary action across governments, employers, employees and educators is needed to ensure that living standards continue to grow.

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