

# The deterioration of the youth job market in Canada is a bad omen

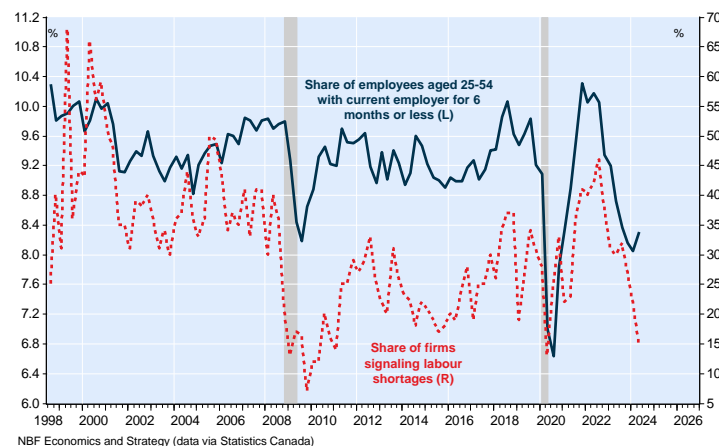
By **Mathieu Arseneau** and **Alexandra Ducharme**

- Young people aged 15 to 24 tend to suffer more than other cohorts when the job market is weak, and the current episode is no different. However, the extent of the deterioration in the current episode is disproportionate to that in the past.
- The deterioration in the youth job market is widespread across the country. But among the 4 major provinces, young people in Ontario are experiencing by far the greatest difficulties, a phenomenon exacerbated by the province's particularly high population growth.
- Unfortunately, we are not confident that hiring prospects will improve any time soon. The vast majority of sectors are overstaffed. What's more, according to our analysis, the vacancy rate in sectors that tend to hire more young people is now at its lowest level since 2017.
- Although 15–24-year-olds have less purchasing power due to lower wages and fewer hours worked, we feel it would be risky to ignore them in our analysis. There is a risk that the deterioration already observed is the "canary in the coal mine", and that after a period of hiring freezes, a wave of layoffs will follow, accelerating wage disinflation.
- What's more, the unemployment rate among young men ranks first among the 32 labour market indicators identified by the BoC as being significant in explaining movements in underlying inflation.
- Against this backdrop, the risks of inflationary pressures ceasing to abate appear to us to be overstated, and confirm our view that interest rates will be lowered significantly over the coming months.

In 2022, almost half of all companies reported labour shortages, prompting a bidding war to attract workers. The turnover rate among the main cohort of workers then reached record levels, enabling employees to use their bargaining power to improve their conditions. This contributed to soaring wages. Those days are clearly over, as restrictive monetary policy has led to a significant reversal of the situation in just two years. The proportion of companies experiencing labour shortages and the rate of worker turnover are now at recession levels. While layoffs remain limited, companies are very cautious about hiring. This makes the situation more complicated for those wishing to enter the job market, particularly young people, who are experiencing a sharp rise in the unemployment rate. How does this deterioration compare with past bouts of weakness? Among young people, which population groups are particularly affected at the moment? Are there any signs that this weakness will soon come to an end? What are the implications of this deterioration in the youth labour market for monetary policy? These are the questions we addressed in this special report.

### Canada: It's getting harder to integrate the labour market

% of employees aged 25-54 with current employer for 6 months or less and firms signaling labour shortages



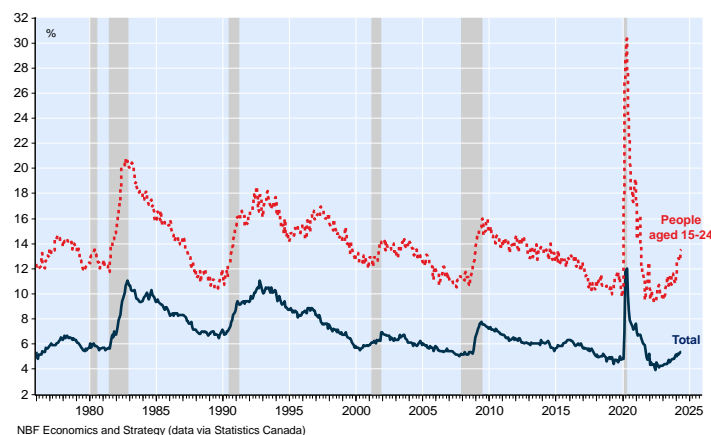
NBF Economics and Strategy (data via Statistics Canada)

## A marked deterioration

The Canadian labour market is currently experiencing a significant deterioration. Since bottoming out in 2022, the unemployment rate for the population as a whole has risen by 1.6 percentage points, the largest increase ever seen outside of recessionary periods. However, not everyone is equally affected by this weak labour market. The unemployment rate among young people aged 15 to 24 rose by a much greater 4.2 percentage points. Such an increase is also unprecedented outside the recession - graph.

### Canada: Sharp rise in youth jobless rate

Unemployment rate

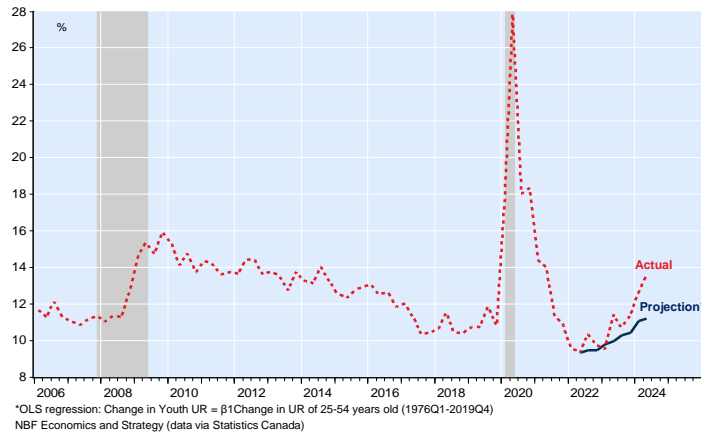


NBF Economics and Strategy (data via Statistics Canada)

Historically, young people have always suffered greater impacts than other cohorts when the labour market is weak. But how does the current episode compare with historical norms? A regression of the change in the unemployment rate of this age group against that of 25 to 54 year-olds over the period from 1976 to just before the pandemic shows that the current level of youth unemployment is more than 2 percentage points above that expected by our model. In other words, the current rise in youth unemployment is disproportionate to historical norms - graph.

**Canada: Sharp rise in youth jobless rate**

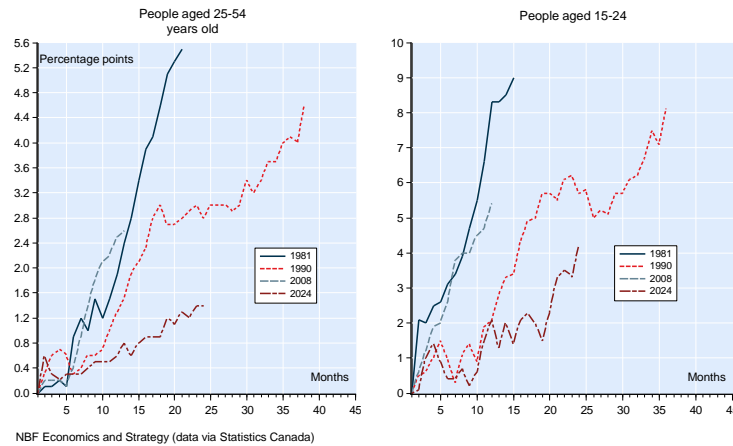
Unemployment rate (UR) of population aged 15-24 and projection using 1976-2019 relationship with UR of people aged 25-54



Comparing the trajectory of the rise in the unemployment rate in the current episode with past recessions, we also observe that the youth unemployment rate behaves more similarly to episodes of historical contraction than the aggregate index. The total increase is beginning to approach the cumulative rise recorded during the 2008-2009 financial crisis, and the speed of increase in recent months is similar to that of past recessions.

**Canada: Youth unemployment rate on the rise**

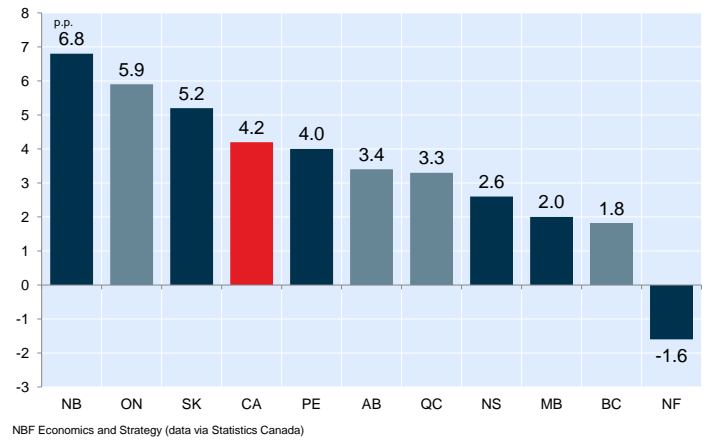
Increase (p.p.) in the unemployment rate, past recessions (excluding COVID-19)



The weakness of the youth labour market over the past two years is widespread across the provinces, with only one province showing an improvement in the unemployment rate. On the other hand, the severity of the situation varies from province to province, with some finding themselves in a more difficult position. Of the four major provinces, Ontario shows the worst deterioration, and is the only one to post an increase above the national average - graph.

**Canada: The increase in youth unemployment rate is broad based**

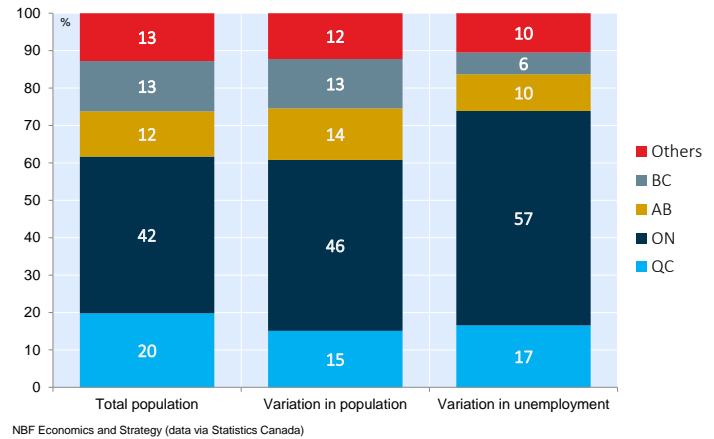
Variation in youth unemployment rate (p.p.) from June 2022 level



A closer look at the details behind Ontario's underperformance reveals that it is a particularly good illustration of the dynamics currently taking place in the Canadian labour market. In fact, the rapid growth in the province's unemployment rate is attributable to a soaring population, which has far outstripped the demand for new workers. Although Ontario accounts for 42% of the population aged 15 to 24 and 46% of its past two year increase, the rise in the number of unemployed in this age group represents 57% of the total increase observed in the country since June 2022.

**Canada: Youth unemployment is acute in Ontario**

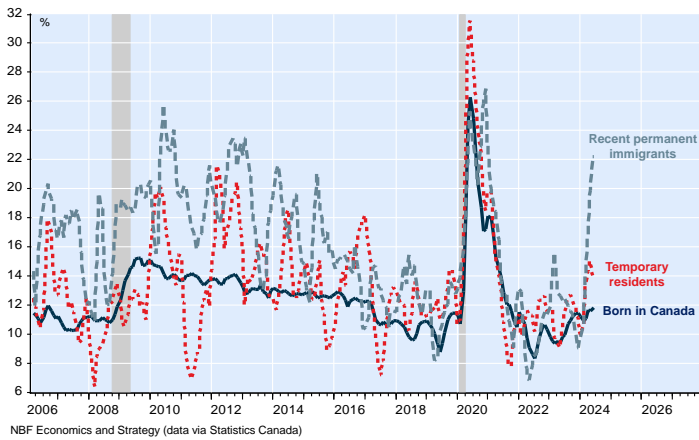
Distribution of level and change in population and unemployment from June 2022, 15-24 years old



The increased difficulty for young immigrants to enter the job market is very clear. Nationally, the unemployment rate for recent immigrants (who arrived in the country 5 years ago or less) aged 15 to 24 reached 22% in June. This represents a marked increase on the low point of 2022 (6.8%), and a rate well above that of young natives. In the current context of extremely rapid population growth and slowing hiring intentions by Canadian firms, this finding is hardly surprising.

### Canada: Challenging labour market for immigrants

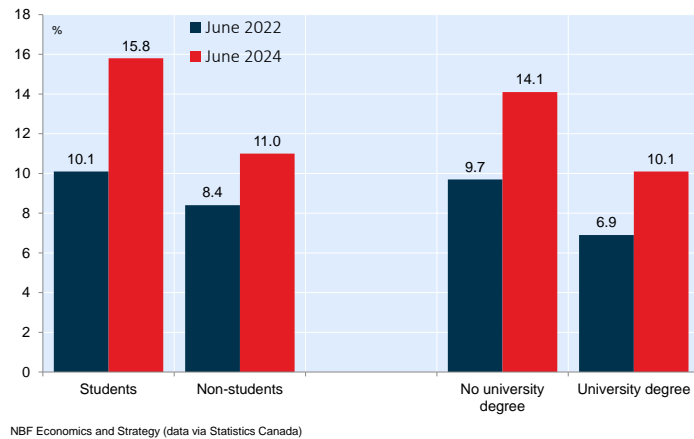
Unemployment rate of people aged 15-24, 3-month moving average, adjusted for seasonality by NBF



Other pockets of weakness can be observed elsewhere in the youth labour market. Specifically, students seem to be hardest hit by the current slowdown and those without a university degree - graph.

### Canada: Harder job market conditions for students

Youth unemployment rate by characteristic in June 2022 and in June 2024

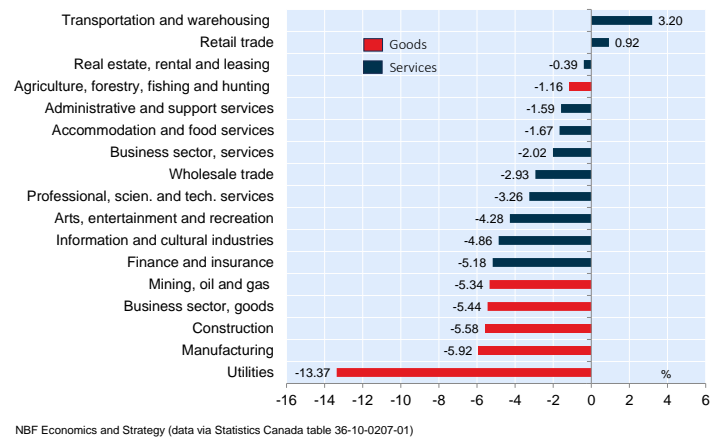


## Stabilization in sight?

Unfortunately, we are not confident of an imminent recovery in the job market. Although interest rates have begun to fall, monetary policy remains restrictive and above-potential economic growth seems unlikely. But even more worryingly, the vast majority of sectors are overstaffed, if declining output per worker is anything to go by. This situation is likely to make it even harder for young people to find jobs in the months ahead - graph.

### Canada: A majority of sectors have too many employees?

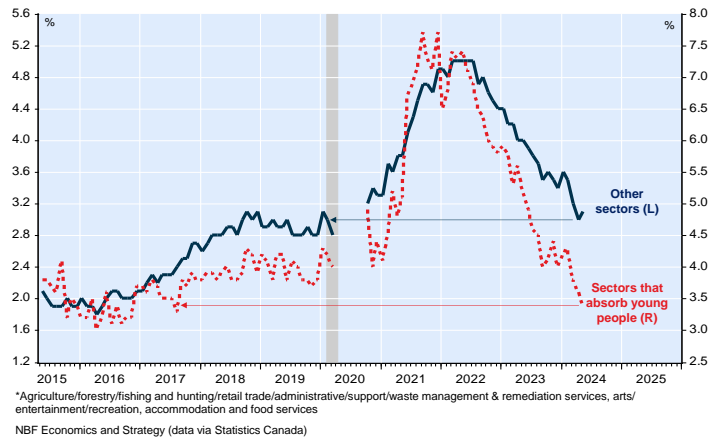
Production per employee (% change from Q3 2022 to Q1 2024)



There's another element that gives us cause for concern about the youth job market: the trend in vacancy rates. We have broken down the labour market into two categories: those sectors that employ a higher-than-average proportion of young people, and those that do not. According to this analysis, hiring is likely to remain limited in the months ahead, particularly for young people. Indeed, the vacancy rate in sectors that tend to absorb more has fallen from a peak of 6.1% in 2022 to just 3.2% last May, the lowest level since 2017. In other sectors, vacancies are cooling rapidly, but remain above pre-pandemic levels.

### Canada: Challenging labour market for young people

Job vacancy rate for sectors that tend to have more young people aged 15-24\* and other sectors

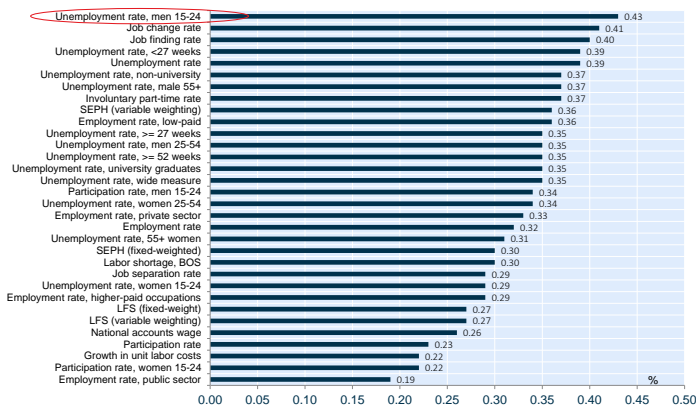


## Implications for the future?

When it comes to questioning the implications for economic growth and ultimately inflation of a weak youth labour market, it might be tempting to overlook the impact. After all, young people are less productive, earn lower wages and often work part-time. This means that the impact of one less worker on consumption is less. However, it would be perilous not to take this into account when analyzing the economic climate. First of all, we can't rule out the current phenomenon being a "canary in the coal mine". It would not be surprising if, after a period of hiring freezes, a wave of layoffs were to occur across all age groups, accelerating wage disinflation. But the implications for inflation may be greater than we think. According to an analytical note by central bank staff published last April ([link](#)), the unemployment rate among young men ranks first among the 32 labour market indicators identified by the BoC as significant in explaining movements in underlying inflation - graph.

### Canada: Youth unemployment must not be overlooked

Impact of a one-standard-deviation increase in variable measures on CPI-Trim

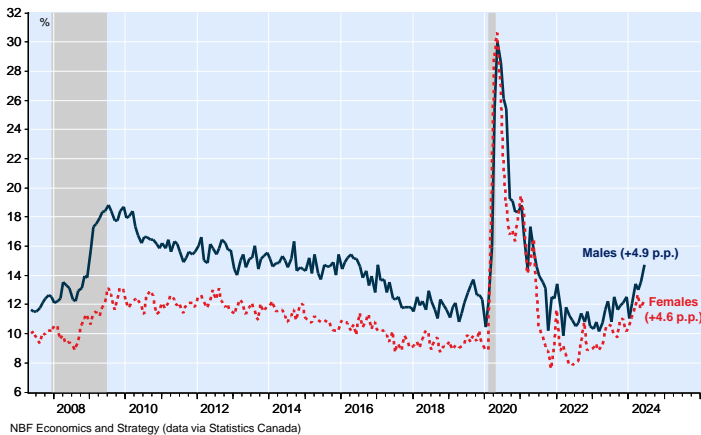


Source: Bank of Canada

Since its post-pandemic trough, the unemployment rate for young men has risen by 4.9 percentage points (versus 4.6 p.p. for women), unprecedented outside a recession. In such a context, the risks of inflationary pressures ceasing to abate appear to us to be overrated. This reinforces our view that interest rates will be lowered significantly over the coming months.

### Canada: Perspective on youth jobless rate by gender

Unemployment rate by gender





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