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The Haves and Have Nots of Canada's Labour Market

by Benjamin Tal

An analysis of Canada's job market shows there is a growing divide between have and have not occupations. On one hand, we are increasingly seeing jobs go unfilled for long stretches due to a lack of skilled applicants. In fact, the Prime Minister recently described skills shortages in the Canadian labour market as "the biggest challenge our country faces".

But on the other end of the labour market spectrum, there is growing evidence that the size of the labour surplus pool is also on the rise. For a number of occupations, employment opportunities are increasingly disappearing.

Traditional occupations like butchers, bakers, tailors, labourers in manufacturing, office managers and clerks are showing signs of labour surplus (Table 2). As are secondary and elementary school teachers. The list of occupations with signs of skills shortages includes many positions in traditional health care roles, such as doctors, nurses and dentists (Table 1). The health care list also includes optometrists, chiropractors, pharmacists, dietitians and nutritionists. Mining, engineering and science occupations are also facing skill shortages.

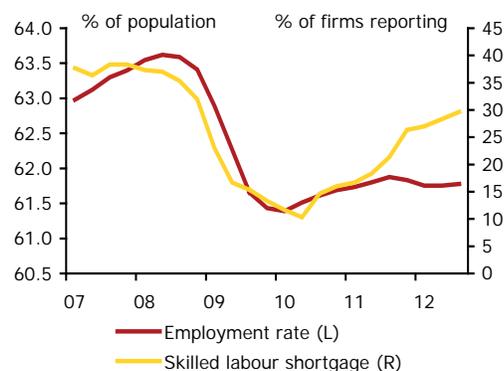
Recent adjustments to the immigration system are clearly designed to ease the pain of skill shortages, but they are probably too small to deal with the current skill gap in the Canadian labour market.

This labour market mismatch is big enough not only to reduce the effectiveness of monetary policy, but also to limit the growth potential of the labour market and the economy as a whole.

Skilled Labour Mismatch: How Big is the Problem?

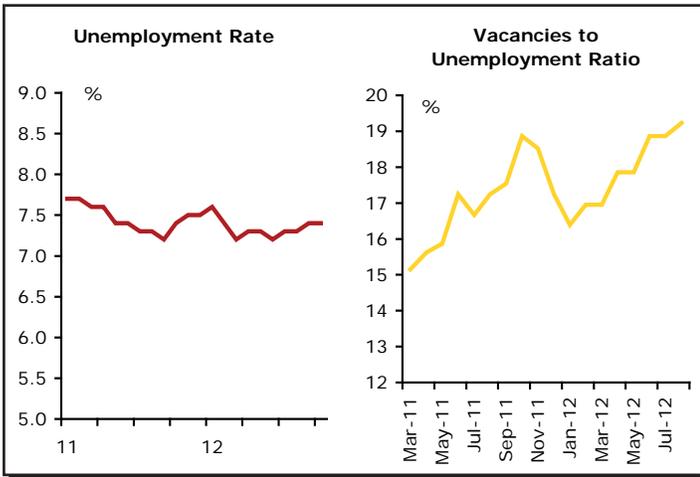
No less than 30% of businesses indicate that they face a skilled labour shortage. This number is double the rate seen in early 2010. And the recent acceleration in that ratio has coincided with a stagnating employment rate—loosely illustrating the negative impact of skill shortages on employment growth (Chart 1). What's more, while you will not see it in the relatively stable trajectory of the unemployment rate, the number of job vacancies reported by firms has risen by close to 16% over the past year—bringing the vacancy-to-unemployment ratio to its highest level since Statistics Canada started

Chart 1
Skill Shortage Limits Employment Growth



Source: Statistics Canada, CIBC

Chart 2
Stable Unemployment Masks Rising Vacancies

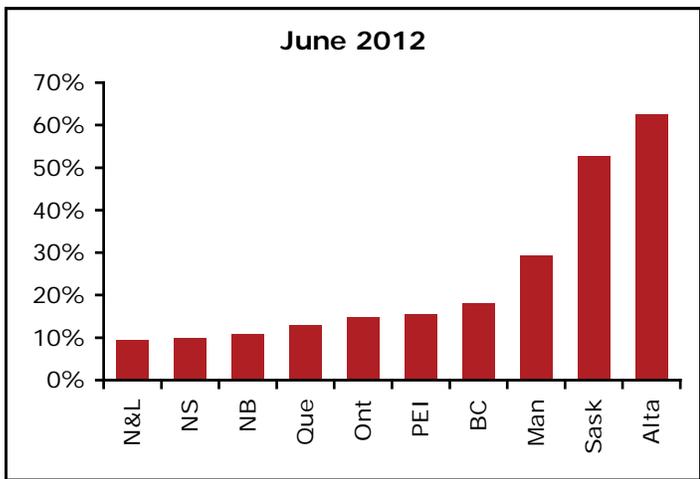


Source: Statistics Canada, CIBC

publishing vacancy information (Chart 2). It is hardly a surprise that the highest vacancy rate is in Alberta, followed by Saskatchewan (Chart 3).

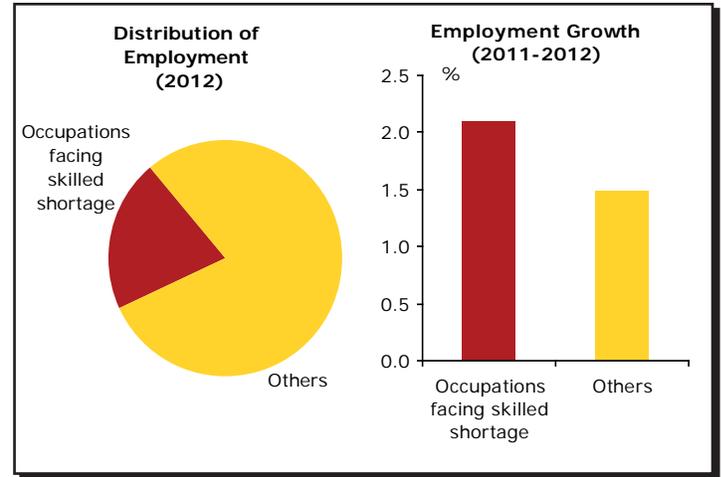
But assessing the skilled labour shortage based on subjective business responses to questioners is hardly satisfying. Yes, a CEO might indicate that her company is facing a skilled labour shortage, but is it severe enough to force her to raise wages and/or increase on-the-job training activity? Actions speak louder than words. And in this context, it is better to assess the skilled labour shortage by focusing on occupations that experience both rapidly rising wages and low or falling unemployment rates. Based on this matrix, we have identified 25 occupations

Chart 3
Vacancy to Unemployment Ratio



Source: Statistics Canada, CIBC

Chart 4
Skill Shortage



Source: Statistics Canada, CIBC calculations

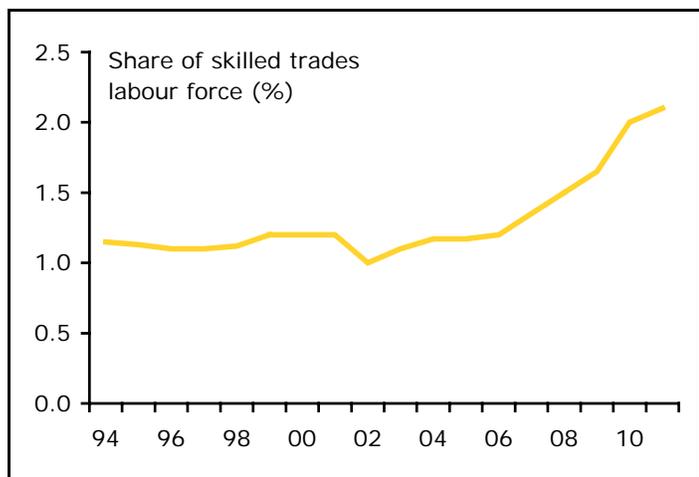
that have recently demonstrated consistent signs of labour shortage (Table 1). By far, the largest skill shortage was found in health-related occupations, the mining industry, advanced manufacturing and business services. Put together, those occupations account for 21% of total employment in Canada (Chart 4, left). That is, one-fifth of the Canadian labour market is currently showing signs of skilled labour shortage. The average unemployment rate of this pool of occupations is just over 1% and their wages are now rising by an average annual rate of 3.9% — more than double the rate seen in the economy as a whole. Note that overall employment in this group is rising by 2.1% — much faster than the speed seen in the rest of the market (Chart 4, right), but obviously not fast enough to dent the labour market skill scarcity.

In this context, the recently announced government plans to admit between 53,000 and 55,000 new Canadians in 2013 through an overhauled federal skilled worker program is a welcome development. However, it's simply not large enough to turn things around. Ditto for the increased focus on apprenticeship as a possible solution to the chronic shortage in skilled trades. As illustrated in Chart 5, despite recent program improvements, the number of certificates granted to apprentices is still a fraction of the overall size of the skilled trades labour pool.

Labour Surplus

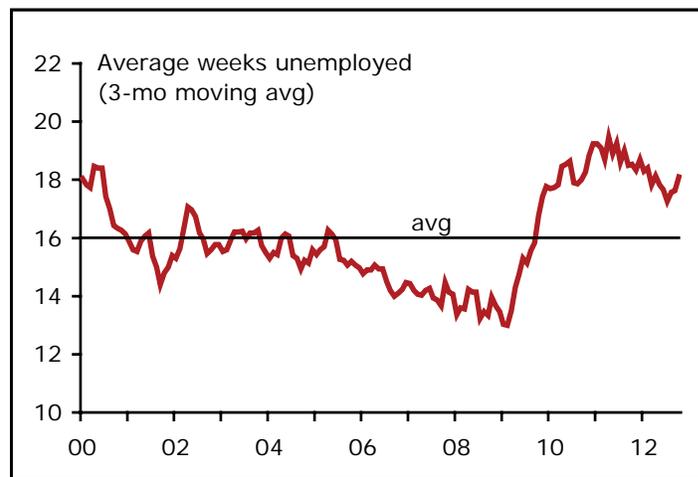
Skill shortage is not the only problem facing the labour market. At the other end of the spectrum, there is a sizable segment of the market that is in a surplus supply

Chart 5
Certificates Granted to Apprentices



Source: Statistics Canada, CIBC

Chart 7
Duration of Unemployment



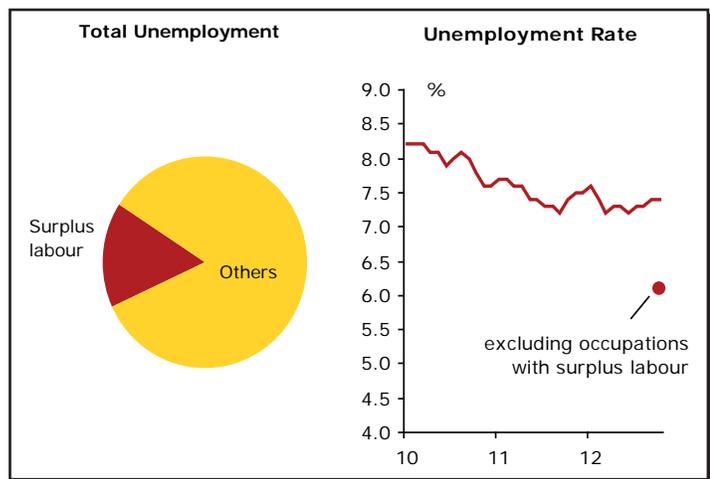
Source: Statistics Canada, CIBC

position. Employing similar methodology used to assess skilled labour shortage, we identified 20 occupations that through the combination of higher/rising unemployment rate and decelerating wage growth show consistent signs of labour surplus (Table 2). This pool, which includes occupations in fields such as clerical, food services, recreational guides, personal services and sales and services, accounts for 16% of total unemployment (Chart 6, left) while their real wage growth was nil over the past year. Excluding this pool of unemployed, the national unemployment rate would have been almost 1.3 percentage points lower (Chart 6, right).

Staying Unemployed

This labour market mismatch carries significant implications for the unemployment rate and its composition. At any point in time, the jobless rate encompasses both the number of unemployed people who recently became unemployed and the number of those who have been unemployed for a period of time. Accordingly, an increase in the unemployment rate can occur not just because of an increase in the rate at which people are losing their jobs, but also because of the fact that on average, people are unemployed for longer periods of time. The statistic aimed at capturing this distinction is the average duration of unemployment, which currently stands at 16 weeks. That is not only 5 weeks above the pre-recession level, but also two full weeks above the average rate seen since the early 2000s (Chart 7).

Chart 6
Surplus Labour

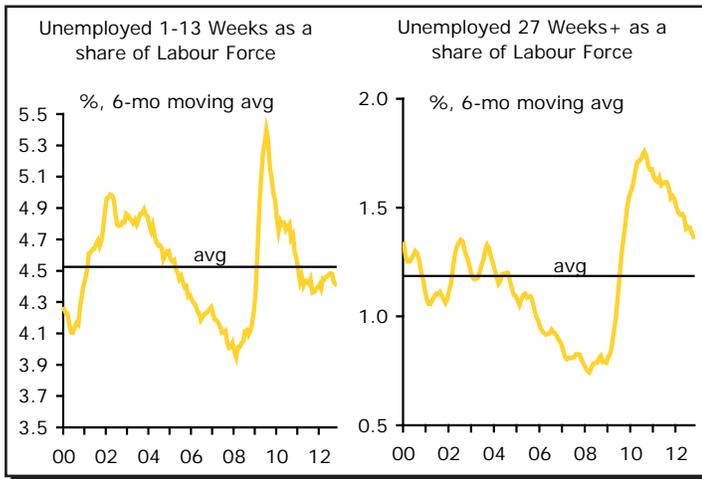


Source: Statistics Canada, CIBC

Digging a bit deeper we find that the inflow rate (a measure aimed at estimating the flow of the newly unemployed into the pool of unemployed) is roughly back to its long-term average (Chart 8, left). But that unfortunately is not the case for long-term unemployment. There are currently 250,000 Canadians who have been unemployed for over 6 months. This number represents 18% of total unemployment in Canada. Clearly the larger this measure is, the more serious are the policy and economic implications of a given unemployment rate. In fact, long-term unemployment reflects underlying labour market deficiencies and can be seen as the core of overall unemployment. Note that longer term unemployment was on a clear downward trend over the past two years, but its current rate is still notably higher than its long-

Chart 8

The Inflow Rate (L); Long-Term Unemployment (R)



Source: Statistics Canada, CIBC

term average. That is mostly the case among Canadians over the age of 45, suggesting that retraining must be an integral part of any solution.

The practical implication of the growing job market mismatch in the Canadian economy is that this measure of long-term unemployment is more likely to start rising from its already elevated level. In fact, the exit rate from unemployment (the likelihood of exiting unemployment, for a job or for some other reason, within the coming three months after being unemployed for less than three months) is starting to head in the wrong direction (Chart 9), implying an upcoming upward pressure on long-term unemployment.

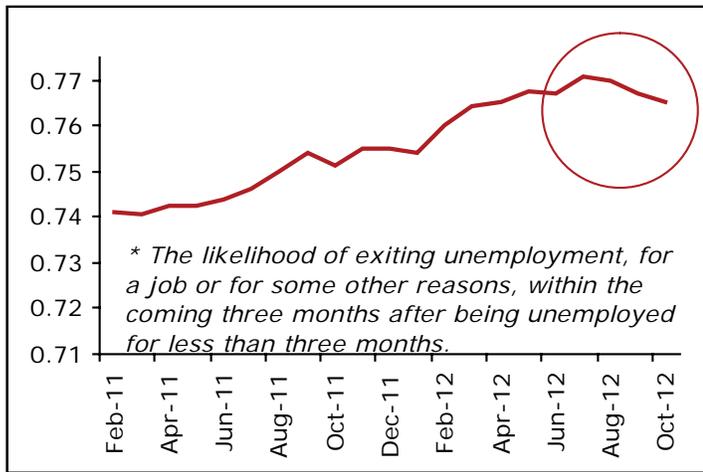
Table 1

25 Occupations Showing Signs of Skills Shortages
Managers in Engineering, Architecture, Science & Info Systems
Managers in Health, Education, Social and Community Services
Managers in Construction and Transportation
Auditors, Accountants and Investment Professionals
Human Resources and Business Service Professionals
Professional Occupations in Natural and Applied Sciences
Physical Science Professionals
Life Science Professionals
Civil, Mechanical, Electrical and Chemical Engineers
Other Engineers
Professional Occupations in Health
Physicians, Dentists and Veterinarians
Optometrists, Chiropractors and Other Health Diagnosing and Treating Professionals
Pharmacists, Dietitians and Nutritionists
Therapy and Assessment Professionals
Nurse Supervisors and Registered Nurses
Technical and Related Occupations in Health
Medical Technologists and Technicians (Except Dental Health)
Technical Occupations in Dental Health Care
Other Technical Occupations In Health Care (Except Dental)
Psychologists, Social Workers, Counsellors, Clergy and Probation Officers
Supervisors, Mining, Oil and Gas
Underground Miners, Oil and Gas Drillers and Related Workers
Supervisors in Manufacturing
Supervisors, Processing Occupations

Table 2

20 Occupations Showing Signs of Labour Surplus
Managers in Manufacturing and Utilities
Clerical Supervisors
Clerical Occupations
Clerical Occupations, General Office Skills
Office Equipment Operators
Finance and Insurance Clerks
Mail and Message Distribution Occupations
Secondary & Elementary Teachers and Counsellors
Sales and Service Supervisors
Cashiers
Occupations in Food and Beverage Services
Tour & Recreational Guides and Amusement Occupations
Other Attendants in Travel, Accommodation and Recreation
Technical Occupations in Personal Service
Other Occupations in Personal Service
Butchers & Bakers
Upholsterers, Tailors, Shoe Repairers, Jewellers and Related Occupations
Fishing Vessel Masters and Skippers and Fishermen/Women
Machine Operators & Related Workers in Metal and Mineral Products Processing
Machine Operators & Related Workers in Pulp & Paper Production and Wood Processing

Chart 9

Exit Rate From Unemployment* Starting to Fall

Source: Statistics Canada, CIBC calculations

Note

(1) The methodology used here estimates the average complete duration of unemployment for a sample of individuals that begin their spell of unemployment at the same time. The exit rate is the conditional probability that an individual will exit unemployment at time t after being unemployed for n months.

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