

Economics

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No to being young again; The struggles of Canadian youth employment

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Due to the struggles that 15-24 year-olds are having finding work in Canada, if given the choice, some might say “no” rather than “oh” to being young again these days. The increase in youth unemployment in recent years has gone above and beyond what we would have expected to see given the broader economic backdrop. While that is partly an oversupply issue stemming from a surge in the student population, other factors also appear to be at work. For example, technological change (including AI), which may be taking the place of part-time or entry-level jobs typically undertaken by young people.

The extent of the problem

The troubles faced by young people finding work are not new, with their jobless rate having risen steadily since 2022. But the most recent step up has taken unemployment to levels typically only seen during recessionary periods (Chart 1, left), and has come in contrast to a surprisingly resilient labour market for other age groups. Moreover, there’s no evidence that the 15-24 unemployment rate is being exaggerated by increased labour market participation. Indeed, if anything the employment-to-

population ratio shows an even more worrying trend (Chart 1, right).

Now, it’s true that the unemployment rate for 15-24 year-olds typically rises more than others when the labour market softens. Increases in unemployment are most frequently driven by weak hiring failing to keep up with increasing labour supply, rather than active firings. Young people typically account for a significant proportion of the new labour supply entering the market, and so they see a greater rise in their unemployment rate in periods of weakness. Ignoring the extreme moves seen during the pandemic period, the average increase in youth unemployment in periods of weakness (including recessionary and non-recessionary periods) has typically been around 4%-points, which coincides with only a 2%-point rise among prime-aged (25-54) workers.

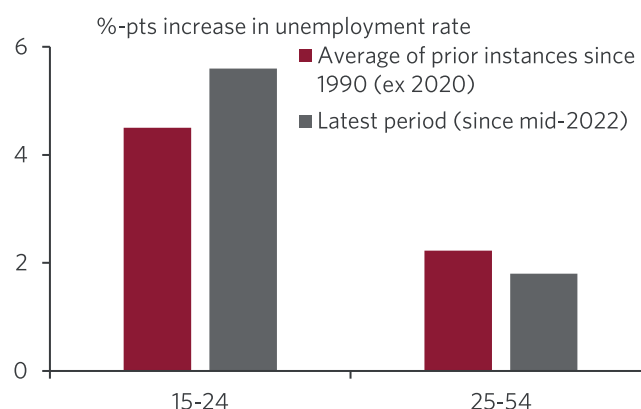
However, this most recent period of rising unemployment for young people, with their jobless rate up more than 5 ½%-points since 2022, has clearly been worse than average, particularly relative to the increase seen in other age groups (Chart 2). A

Chart 1: Youth unemployment near recessionary levels (L), employment ratio plunging (R)



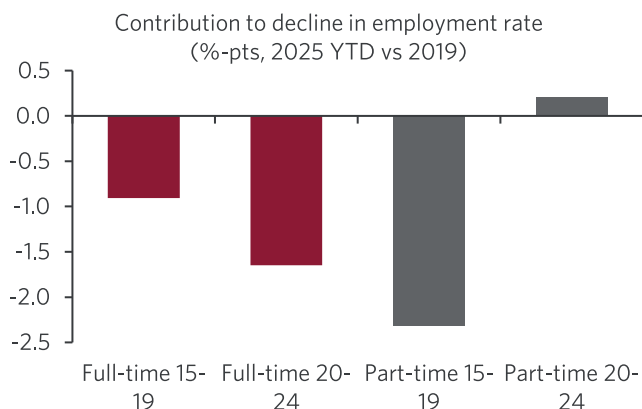
Source: StatCan, CIBC

Chart 2: Youth unemployment has risen more than average, and relative to prime-aged workers



Source: StatCan, CIBC

Chart 3: Students not finding part-time work, graduates struggling for full-time positions



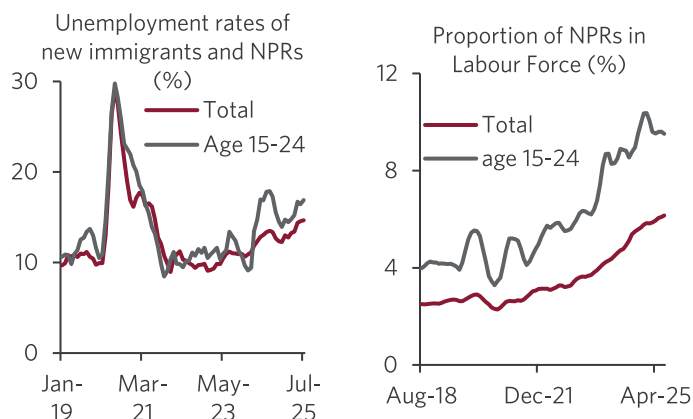
Source: StatCan, CIBC

breakdown of employment relative to population shows significant struggles for 15-19 year olds finding part-time work, as well as 20-24 year-olds securing full time jobs (Chart 3). That analysis also uncovers another measure of weakness in youth employment, namely a slight increase in 20-24 year olds working part-time jobs, potentially because not enough full-time positions are available.

Supply AND demand

When trying to understand why youth employment is suffering more during the current period, we need to look at supply as well as demand factors. The ballooning in Canada's population from 2022 to 2024, particularly in non-permanent residents (NPRs), clearly played a role in the overall increase in joblessness, as labour demand failed to keep up with that supply surge. If anything, the 15-24 age group will have been even more influenced by this population growth, as its NPR component grew even quicker than that of the overall economy, and saw a slightly larger increase in unemployment (Chart 4).

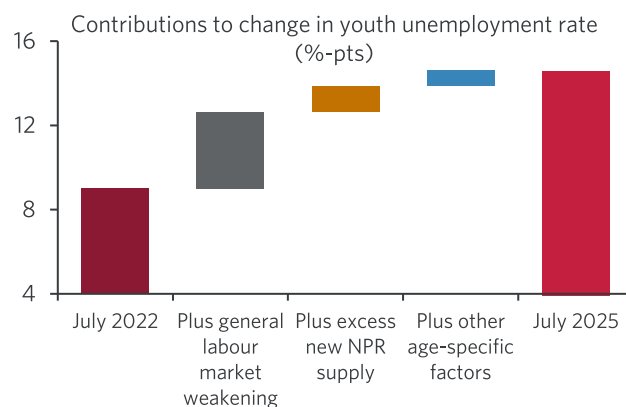
Chart 4: Higher unemployment among new entrants in 15-24 age group (L), and larger increase in NPR labour force (R)



Source: StatCan, CIBC

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Chart 5: Higher supply of 15-24 year old labour force doesn't account for all excess unemployment



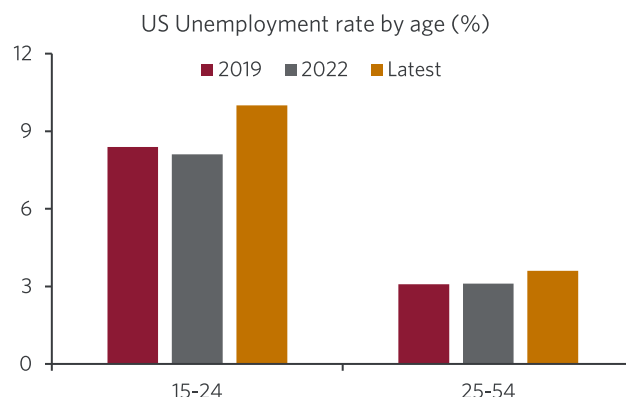
Source: StatCan, CIBC

That supply factor, going above and beyond that seen in other age groups, explains more than half of the excess unemployment witnessed among 15-24 year-olds, when compared to other age groups, in recent years. However, it doesn't appear to explain all of the divergence (Chart 5). Moreover, with population growth decelerating rapidly recently, in large part because of a curbing of student numbers, that supply factor is unlikely to explain the renewed weakening in youth employment witnessed this year.

There are almost certainly other factors contributing to the weakening labour market conditions for young people recently, and not just in Canada. Indeed, higher youth unemployment has also been seen in other countries, including ones where the overall labour market has displayed much more resilience. In the US for example, the unemployment rate for 15-24 year-olds has risen by almost 2%-points, well above the 0.5% increase for prime-aged workers (Chart 6).

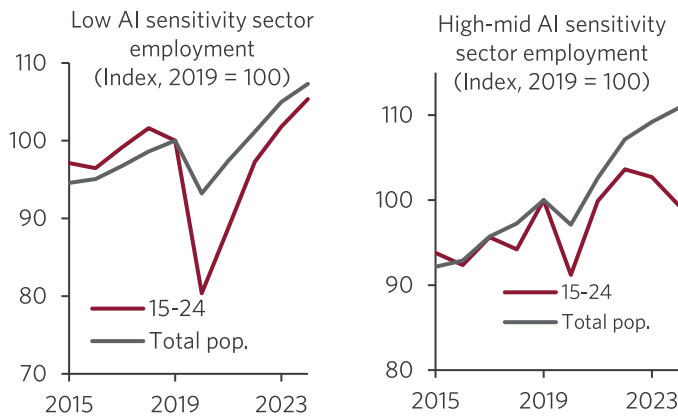
One possible reason is that the jobs typically undertaken by young people are also the ones most at risk from technological

Chart 6: Higher youth unemployment has also been seen in the US



Source: BLS, CIBC

Chart 7: Youth employment lagging a lot in AI sensitive sectors



Source: StatCan, CIBC

change, including AI. While studies suggest that young people should benefit most from any productivity enhancements and job growth in complimentary roles in the long-run, they also flag that workers under 25 are more likely to work in areas that are at high risk but have “low complimentary” with advancements in AI.¹

Early data for Canada does suggest a role for AI and other labour-substituting technologies in the disproportionate climb in youth unemployment. We use a categorization of AI-sensitive sectors based on a 2024 research paper from Statistics Canada², defining sectors as high (or above average) exposure as ones where more than 30% of roles were seen as having “high exposure” but also “low complimentary” to AI. Using employment data by sector and age, youth employment is struggling much more than other age groups in sectors defined as having high AI exposure (Chart 7). That’s not the case in sectors with low exposure, and so this isn’t an economy-wide issue.

Digging into the sector details, retailing is partly responsible, albeit likely reflecting the ongoing roll out of technologies such as self-check outs rather than true AI. Youth employment has also struggled in business & support services, as well as professional & scientific services in recent years, which could partly be attributable to the use of AI in executing research tasks.

No to being young again?

The good news is that the factors driving youth unemployment higher at present shouldn’t last forever. Population growth, particularly among NPRs, is already slowing, meaning less incremental supply needing to be absorbed into the labour market. And while new technologies, including AI, may be limiting demand for some student and entry-level roles, that same demographic group is most likely to work in fields using that technology and unlocking productivity benefits from it in the future.

Technological advancements of the past, including for example the personal computer and the internet, also had a negative impact on some roles, but those were offset in the longer term as jobs were created or enhanced in other areas. So in the future, we may be back to saying “oh” rather than “no” to being young again.

¹ <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2024/01/14/Gen-AI-Artificial-Intelligence-and-the-Future-of-Work-542379>

² <https://www150.statcan.gc.ca/n1/en/pub/11f0019m/11f0019m2024005-eng.pdf?st=IhleZd12>

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