

## Economics

# IN FOCUS

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## Where have all the workers gone? Part 2

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A few weeks ago, in our week ahead publication titled “where have all the workers gone”, we highlighted the issue of missing workers in the Canadian labour market and speculated about some of the factors that led to the dramatic increase in job vacancies—mainly for low skilled positions. Here we try to go a bit beyond speculation by tackling that question using special tabulations we obtained from Statistics Canada.

The issue is well known. Too many openings, not enough workers—mainly on the lower end of the pay scale. That issue is clearly illustrated in Chart 1. The share of low-paying jobs (measured by occupations and wage categories) has fallen notably during covid. That of course was not a surprise at first, since most jobs lost during the pandemic were in low wage occupations. What is surprising is that despite the full recovery in the labour market, the share of low-paying jobs in overall employment hasn’t recovered.

Now it’s easy to be cynical here and suggest that many young Canadians (that dominate the low-paying service job market) prefer to stay home and watch Netflix. But that’s not the case.

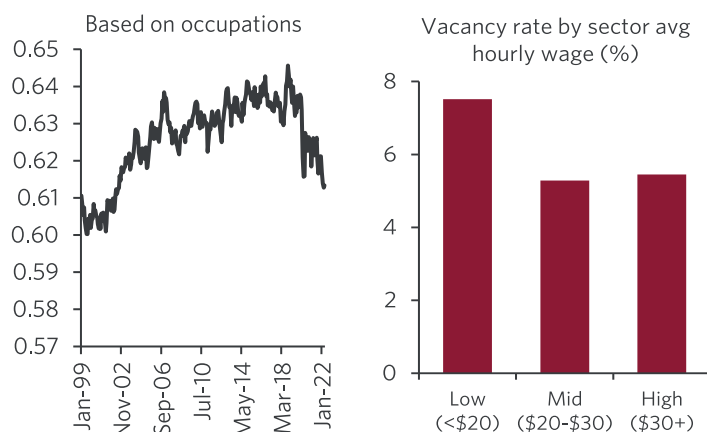
As illustrated in Chart 2, labour market participation rates for all ages including young Canadians are back to their pre-crisis levels and have been for some time. In other words, it doesn’t appear that Canadians are slacking off.

So, we must go a bit deeper in search for those missing workers. And the more we look at the data, the more we are convinced that Covid has resulted in, and accelerated some, significant and potentially structural changes that were underway in the Canadian labour market. The crisis has introduced a new level of flexibility into the labour market, with virtual work opening up possibilities that were not there before.

### Don’t wanna be all by myself, anymore

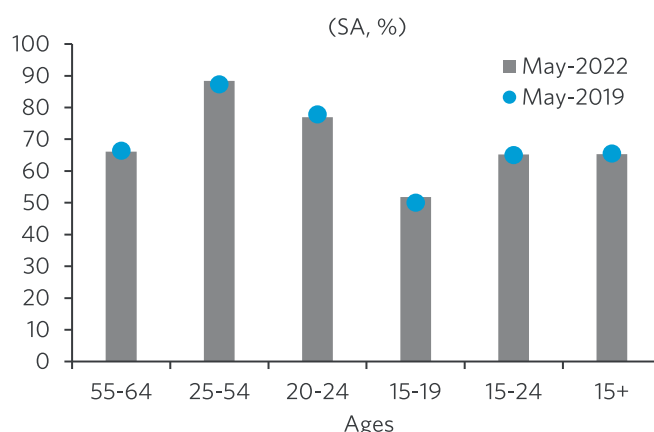
The difficulties companies face recruiting clearly isn’t because people are choosing to work for themselves instead. In fact, the opposite is the case. Even though overall employment in the Canadian economy is already above the level seen before the crisis, the share of self-employment in total employment is still 1½% below its pre-crisis rate (Chart 3).

Chart 1: Share of low-paying jobs still down



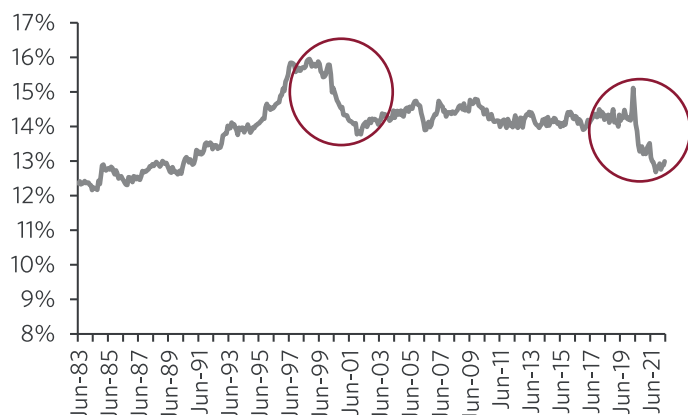
Source: Statistics Canada, CIBC

Chart 2: Participation rate: Back to normal for all ages



Source: Statistics Canada, CIBC

**Chart 3: Share of self-employment has yet to recover**



Source: Statistics Canada, CIBC

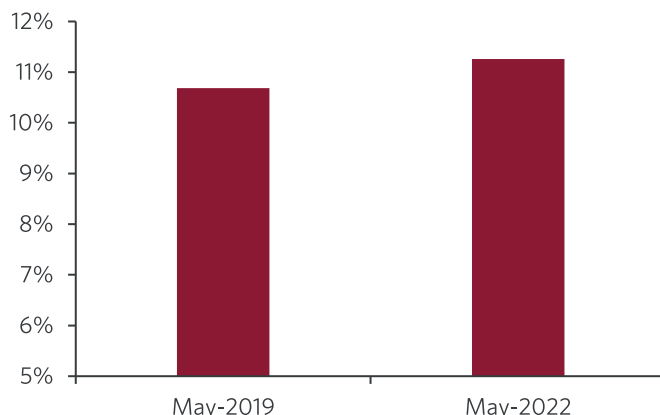
The last time we saw such a drop was during the dot com recession, but back then it simply brought the self-employment rate back to its long-term average. This time around the drop is from the long-term average.

Looking at the sector breakdown, before the pandemic struck, a trend decline in self employment within agriculture was being offset by increased propensity towards self-employment in other sectors. Since 2019, self-employment in agriculture has continued to decline due to the scaling up of operations in that sector, but without the offset from other areas. We think that the trauma of the crisis has led to a situation in which many self-employed have chosen to switch status to a paid employee in search of more stability and a better safety net. It's also possible that more flexible work arrangements even for paid employment since the pandemic struck (working from home, flexible hours) have reduced some of the previous benefits of self-employment.

## Educating the masses

Our next step was to look at to what extent the change in the job distribution is working to fix the previous mismatch in the labour market, where highly educated workers were underutilized (university graduates serving coffee). The idea is that the Covid-induced increase in labour market flexibility allowed those highly educated individuals to switch to a job that was a better match for their skill set. It's a nice story, but too bad it's not true. Our research suggests that currently, 11% of jobs in occupations that require a low level of education are held by university graduates. That's actually up slightly from before the crisis (Chart 4). So the elevated level of vacancies currently in low-paying occupations doesn't appear to be because previously overqualified staff have found jobs in other sectors.

**Chart 4: Share of university educated workers in low education occupations**

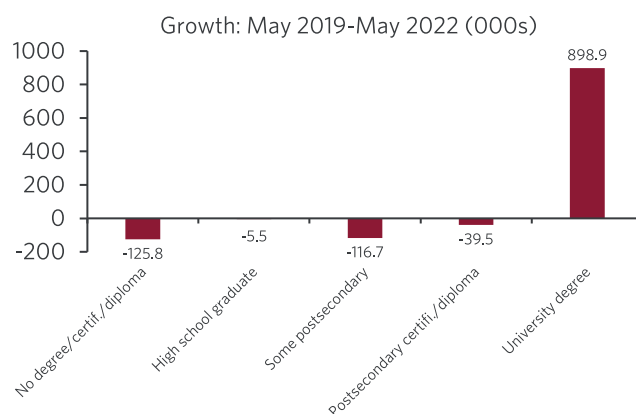


Source: Statistics Canada, CIBC

The changing structure of the workforce by age and education could, however, explain the recruiting woes of certain sectors. Relative to the same period in 2019, all of the growth in the Canadian labour force has come from university educated persons, and this trend is mirrored in the employment figures as well (Chart 5). This is largely due to demographic forces, but also due to an increase in labour force participation within the university educated group. The demand for workers during the pandemic in areas that typically require university degrees, including tech, finance and others, appears to have drawn some back into the labour force to fill those positions.

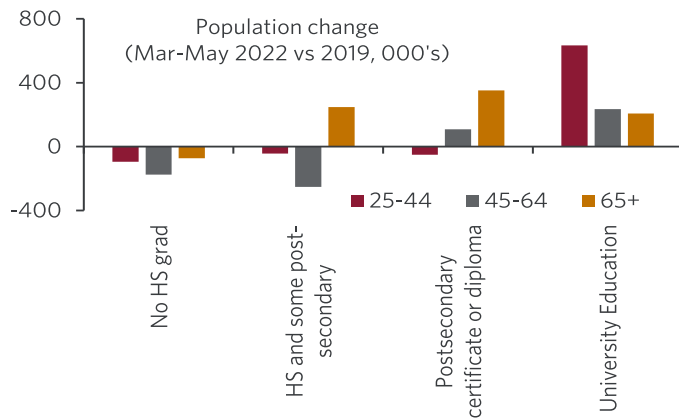
However, it is the demographic story that is creating issues on the other side of the equation, in terms of the recruiting

**Chart 5: All the growth in labour force during Covid was among university educated workers**



Source: Statistics Canada, CIBC

**Chart 6: Older workers with low education reaching retirement age**



Source: Statistics Canada, CIBC

difficulties facing low-paying sectors (Chart 6). The breakdown of population growth by age and education suggests that if you are trying to recruit a university graduate with little or no work experience, you should have no issue. If you are looking for anybody else, good luck.

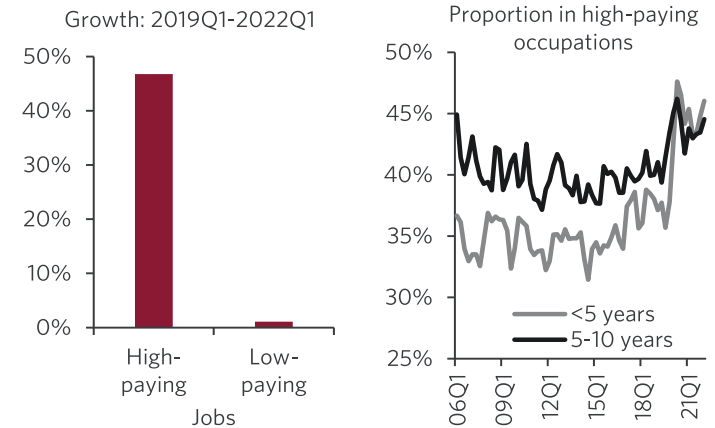
For example, all of the population growth seen among high school graduates, and those with some postsecondary education, who may fill some of these lower-paying jobs, has come in the 65 and over age range. So the pool of potential workers in these sectors has shrunk due to the aging population, as more people with lower education levels reach retirement age. This is something that would have happened with or without Covid, but has potentially been accelerated by the pandemic.

## The immigration impacts

The pick-up in immigration seen over the past twelve months also hasn't helped fill lower-paying jobs to the same extent that it may have done in the past. Before the pandemic struck, the proportion of new immigrants (in Canada less than 5 years) working in high-paying roles was pretty constant at 35%. That was well below the 40% proportion achieved for immigrants who had been in Canada for between 5 and 10 years, highlighting that new arrivals into the country would sometimes have to work in lower paying occupations first before finding jobs in other sectors later. That is not the case today. In fact, the proportion of recent immigrants in high-paying jobs is now slightly above the proportion among people who have resided in Canada between 5 and 10 years (Chart 7).

As we've discussed in the past, the increases in immigration over the past year have been largely driven by young professionals, many of which were students already in the country who have just seen a change in classification rather

**Chart 7: Recent immigrants more concentrated in high-paying occupations**



Source: Statistics Canada, CIBC

than a change of address. Because many have studied in Canada and speak one of our two official languages, they have had greater success finding roles specifically related to their education. That's good news for them, but not for business owners in lower-paying sectors who are trying to fill vacancies at the current time.

And graduating students aren't being replaced within the ranks of lower paying industries by new students to the same degree that was happening prior to the pandemic. As we discussed last week, the role of international students in the Canadian labour market over the past decade has probably been underappreciated and undercounted. While still important and undercounted today, the pandemic certainly disrupted the previously strong growth rate in the numbers of international students within the country and available to fill part-time roles in certain industries.

## Where have all the workers gone?

The pandemic appears to have caused, or accelerated, some structural changes within the Canadian labour market that are resulting in high vacancy levels—particularly for low-paying occupations. Aging demographics, particularly among those with below university education, and immigration driven by new university graduates, have contributed to this trend. The result has been a greater proportion of people working in higher paying sectors, and labour shortages in many lower wage occupations.

The greater leaning in the labour market to higher paying roles clearly isn't (at least yet) resulting in the sort of productivity boost for the economy that you may expect. Trying to figure out why is probably a whole new article. However, part of the problem could be that sectors where vacancy rates are high need the extra staff to achieve a maximum level of efficiency.

After all, a restaurant may not have enough servers to operate at full capacity, even if they have the kitchen staff. An airport will not be able to open fully without enough baggage handlers. And within those higher paying sectors that have seen the share of jobs increase, a lower average level of experience could also limit productivity temporarily.

Looking forward, some of the troubles could ease somewhat. For example, immigration should become broader based again, and not largely driven by graduating students who are already in the country. However, the demographic and education structure of the population suggests that companies in lower paying sectors could continue having greater difficulties recruiting than in the past, resulting in higher wages to incentivize recruitment.

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