

Youth labour market: Not on our worry list

Summary

- In a speech last week titled “The Three Things Keeping Me Awake at Night,” Stephen Poloz shared, among other worries, his concern about the toughness of the job market for young people, noting that their participation in the labour market had not returned to its pre-recession rate.
- Does this mean young people are leaving school, failing to find a job and returning to their parents’ basements to play videogames? Our investigation falsifies this hypothesis. The shift to a lower participation rate in 2017 is exclusively driven by students preparing for an ever-changing labour market.
- The various measures of underemployment show a youth labour market that has fully recovered after solid progress of employment in 2017, progress that has benefited young people. The situation of Canadian youth would be the envy of many other developed countries.
- We continue to think the Bank of Canada is understating labour market tensions and that its monetary stance is too accommodative for current conditions.

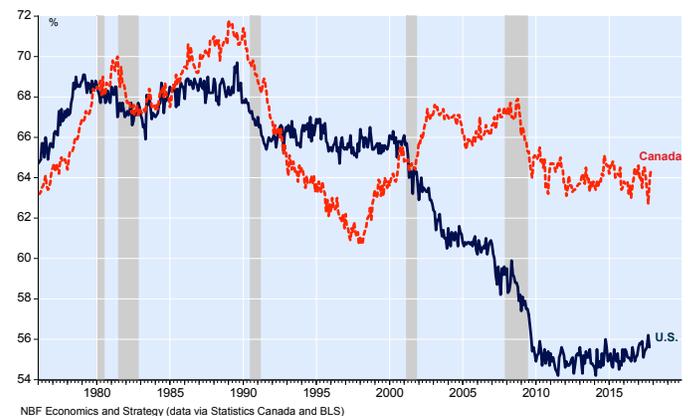
A good reason for insomnia?

Last Thursday Bank of Canada governor Stephen Poloz shared with a Toronto audience the “Three Things Keeping Me Awake at Night.” The first two were “cyber threats” and “high house prices and household debt.” The third he called “the tough job market for young people.” He reiterated his view that there is still slack in the labour market, a finding we do not share.¹ As he sees it, the gap of about 4 percentage points between the current participation rate of 15- to 24-year-olds and its 2007 peak indicates that the Canadian labour market is not yet back to full health.

By this logic, Mr. Poloz must find Federal Reserve chair Janet Yellen quite reckless for pursuing monetary normalization when the youth participation rate in the U.S. is a whopping 8 points lower than in Canada (chart).

Youth participation rates in Canada and the U.S.

Labour-market participation of population aged 15-24 in Canada, 16-24 in U.S.

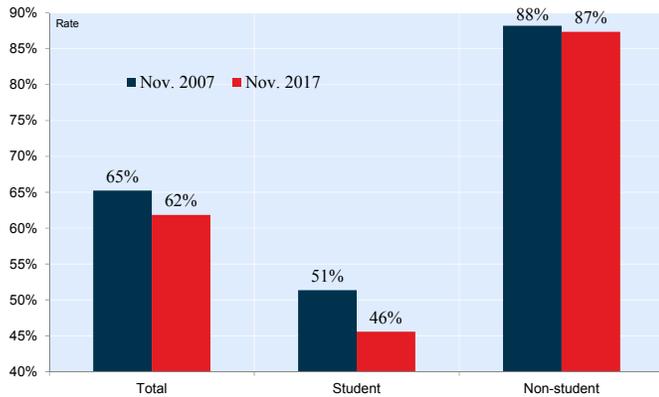


True, a decline of the participation rate can sometimes signal worker discouragement about possibilities for entering or re-entering the labour market. Does the decline of participation among young people mean they are leaving school, failing to find a job and returning to parents’ basements to play video games? Our investigation falsifies this hypothesis. The shift to a lower participation rate in 2017 is exclusively driven by students preparing for an ever-changing labour market (chart). The rate for nonstudents is essentially unchanged from 10 years ago.

¹ See our Special Report of November 30 at <https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/special-report-30nov2017.pdf>

Canada: Youth participation rate in 2007 and in 2017

Participation of population aged 15-24 (November of each year, not seasonally adjusted)

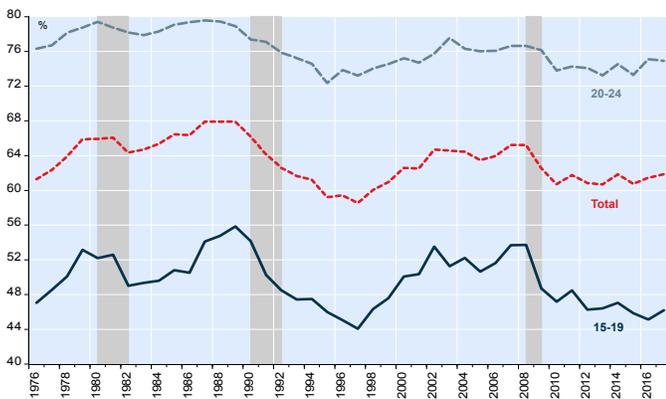


NBF Economics and Strategy (data via Bloomberg)

We also find that the lower youth participation rate relative to 10 years ago is mostly a phenomenon of the segment aged 15 to 19. For 20- to 24-year-olds, the participation rate is essentially the same as it was 10 years ago. A large majority of the teenage cohort – 84% – are students, of whom 81% are full-time.

Canada: Youth participation rates since 1976

In November of each year



NBF Economics and Strategy (data via Statistics Canada)

A return of participation of the 15-to-19 age group to its pre-recession rate would add only 0.8% to the total active population. What's more, no fewer than 4 out of 5 workers in this age group are working part-time. In other words, the BoC governor's concern on this score seems to us disproportionate in his review of the overall state of the Canadian labour market. And by what wizardry can the cyclical component be distinguished from the structural component of a drop in the participation of an age cohort?

A scan of measures of underemployment

The usual measures of labour underemployment do not show a problem for 15- to 24-year-olds at present. In November the unemployment rate of this cohort was 10.8%, a rate not matched even at the best times before the recession of 2008-09 (chart). What about the underemployment rate, which also counts discouraged job-seekers, people only marginally attached to the labour forces and those working part-time involuntarily. It is now only 0.2 points above the rate of 10 years ago (chart). Plus which, the average hourly wage has recently been growing faster for young people than for the workforce as a whole, an indication of relatively tight labour market (second chart below).

Youth labour market: Slack indicators since 1997

Unemployment rate and underemployment rate of Canadian population aged 15-24 (seasonally adjusted)



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Canada: Wages are rising faster for youth than for other workers!

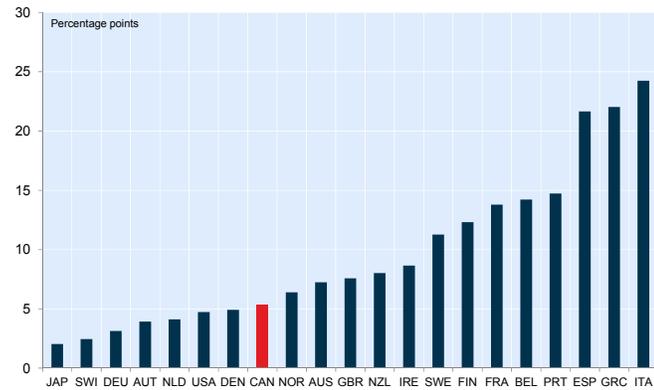
12-month change in average hourly wage for youth (15-24) and for all workers



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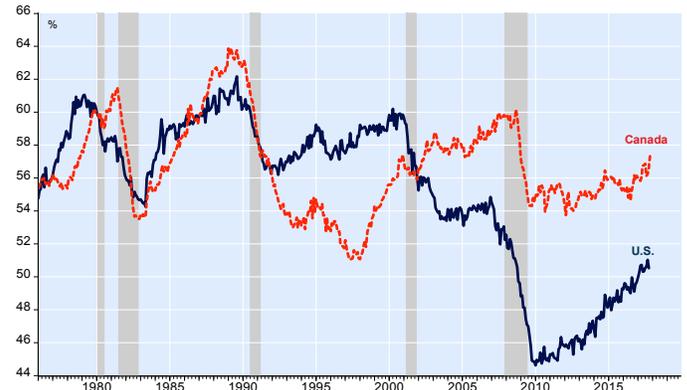
Many countries would be delighted to have Canada's youth employment. In most OECD countries, youth unemployment has yet to fall to the pre-recession rate. Canada is also among the best performers for the difference between its youth unemployment rate and its overall unemployment rate (chart).

Excess of youth unemployment rate over total rate in OECD countries
Youth unemployment rate minus overall unemployment rate, Q2 2017



NBF Economics and Strategy (data via OECD)

Youth employment rates in Canada and in the U.S.

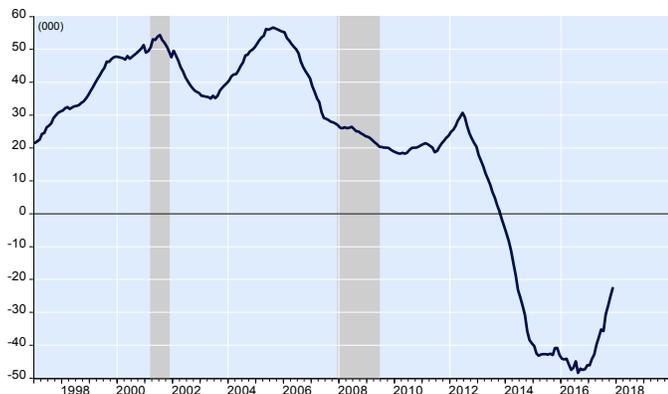


NBF Economics and Strategy (data via Statistics Canada)

Solid momentum in 2017

Apart from his disappointment with the trend of the youth participation rate, the BoC governor is concerned that only 50,000 of the 350,000 full-time jobs added in Canada over the first 11 months of the year have gone to young people. That might not seem like much, but keep in mind that half of the 15-24 age group opts for part-time work because of school attendance. The gain of 50,000 jobs so far in 2017 is the best showing in two decades for the first 11 months of a year. Moreover, this solid performance has taken place while the population of this cohort is declining (chart). In other words, it can be misleading to judge the employment trend of an age group by absolute numbers because the population of each age group is changing. Better to look at rates. That gain of 50,000 full-time jobs, combined with 40,000 part-time jobs, has increased the youth employment rate by a solid 1.2 percentage points so far in 2017 (chart).

Canada : The 15-24 population declining
12-month change in 15-24 population



NBF Economics and Strategy (data via Statistics Canada)

Conclusion

Contrary to the view the BoC governor expressed last week, we believe that the labour market for Canadian youth is in good shape even if the youth participation rate remains below that of 10 years ago. The various measures of underemployment show a labour market that has fully recovered after solid progress in 2017, progress that has benefited young people. We continue to believe that the Bank of Canada is understating labour market tensions and that its monetary stance is too accommodative for current conditions.

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Special Report

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