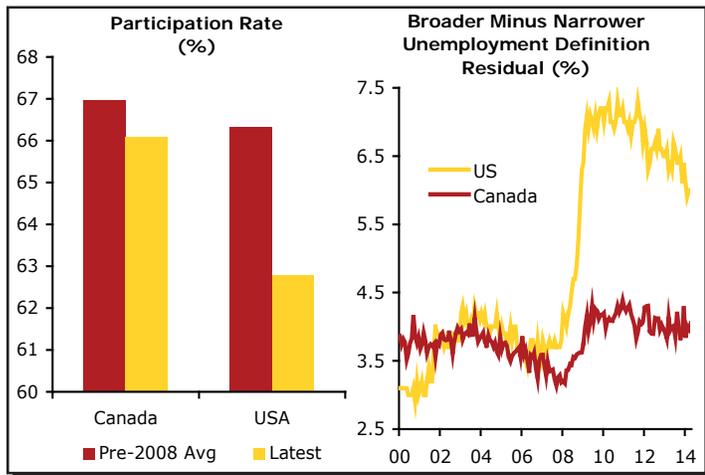


Chart 3

A Smaller Drop in Participation Rate (L) as Cyclical Forces Less Important in Cda's Participation Slack (R)



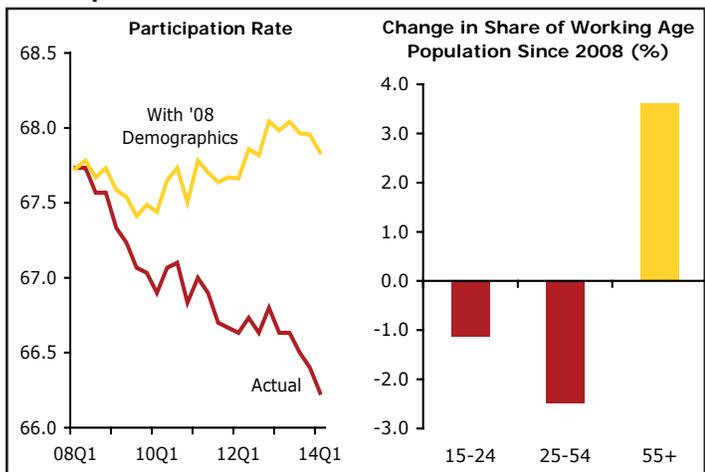
Source: Statistics Canada, CIBC

alternative measures of unemployment in the US and Canada¹ suggests that Canada has not built up a notable overhang of discouraged and under-employed individuals (Chart 3, right).

Indeed, if we were to take the demographics prevalent at the beginning of 2008 and hold them steady as age-specific participation rates varied over time in Canada, we would have seen the broad participation rate tick higher (Chart 4, left). But because the employment share of those aged over 55—whose participation rate is much lower than younger groups—have been at the expense of prime-aged workers and youths (Chart 4, right), the participation rate has steadily crept lower.

Chart 4

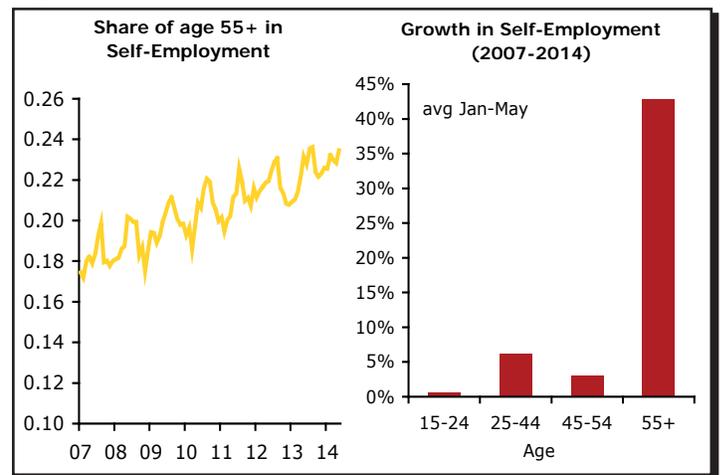
An Aging Workforce (L) Primary Driver of Participation Rate Slide (R)



Source: Statistics Canada, CIBC

Chart 5

Self-employment Rising Fast Among Workers Aged 55+



Source: Statistics Canada, CIBC

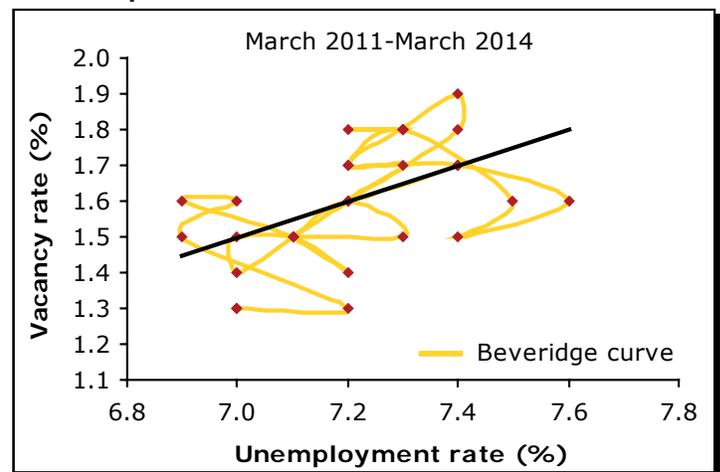
In fact, that drop in participation understates some deeper deterioration, as a growing number of Canadians aged 55 and over still in the labour market are rapidly reducing their level of job-market engagement. Since 2007 the number of older self-employed individuals has risen much faster than in any other age group, seeing their share in total self-employment rise strongly (Chart 5).

Vacancies and Unemployment: Not Dancing to the Same Tune

With demographics slowly clawing away at the employable base of Canadians, another potential structural factor may be chipping away at it further. The

Chart 6

Positively Correlated Vacancy and Unemployment Rates Implies Some Labour Market Mismatch



Source: CIBC calculations based on Statistics Canada's tabulations

abnormal relationship between recent vacancy rates and unemployment suggests that large swaths of those unemployed are not what employers are seeking. The Beveridge Curve should be downward sloping, i.e. lower levels of unemployment generally occur when there are higher levels of job vacancies. That intuitive relationship has failed to hold true in Canada since 2011, with higher vacancies and higher unemployment positively correlated (Chart 6)².

A disconnect between the types of workers desired and those that are available in the ranks of the unemployed would explain how a growing number of unfilled vacancies could co-exist with a higher level of unemployed—and potentially unemployable—individuals. In that context, the actual slack in the labour market would in fact be lower than what is represented in the headline unemployment rate:

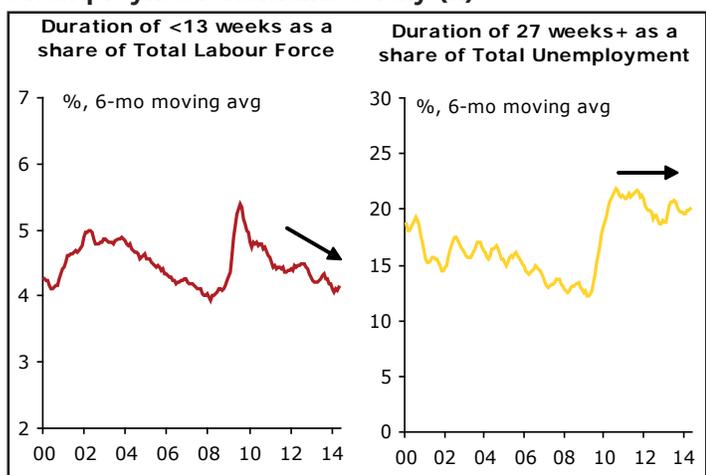
Diverging Bargaining Power

Traces of potentially unemployable workers can also be seen when comparing inflows into unemployment (becoming unemployed) and the levels of the long-term unemployed (staying unemployed). The share of those unemployed for roughly three months or less has been plumbing cycle lows recently, and is even close to all-time troughs (Chart 7, left).

But the number of those who have been unemployed for 27 weeks and longer remained at elevated levels (Chart 7, right). Therefore, the sticky unemployment rate of the past two years or so is largely due to stagnation in long-

Chart 7

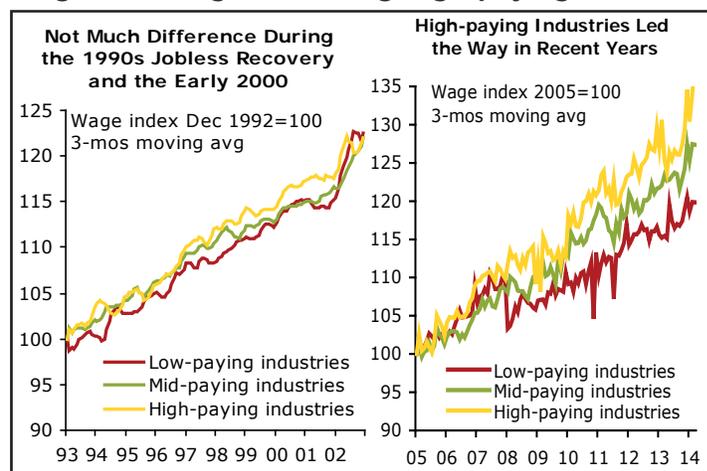
Inflow into Unemployment Slowing (L), Long-term Unemployment Remains Sticky (R)



Source: Statistics Canada, CIBC

Chart 8

Wage Gains Highest Among High-paying Industries



Source: CIBC calculations based on Statistics Canada's tabulations

term unemployment as opposed to an increase in the number of newly unemployed.

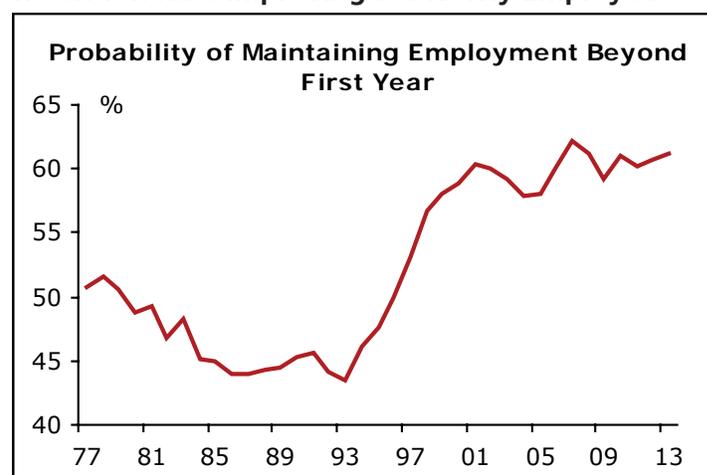
And the wage mechanism reflects this reality clearly. Unlike past recoveries, the current one has seen stronger pay increases amongst higher paid professions relative to others (Chart 8). Those with higher levels of relevant education and training—which are unlikely to be those stuck in unemployment—have more bargaining power than those who are engaged in less remunerative professions.

Breaking on Through to the Other Side

In an environment where certain in-demand workers are benefitting in ways others cannot, those who

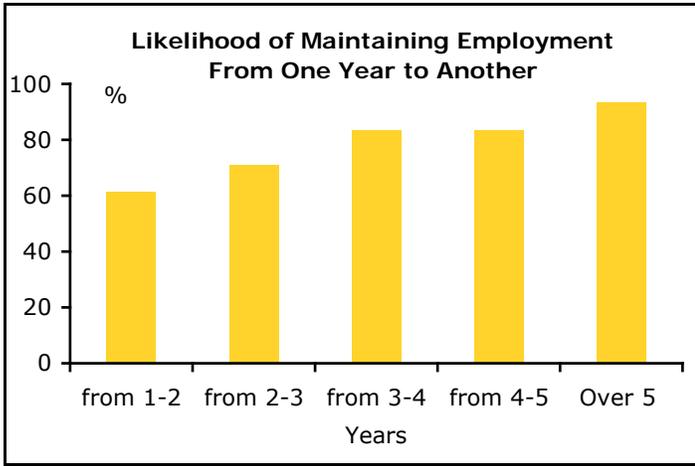
Chart 9

Retention Rate Improving For Newly Employed



Source: CIBC calculations based on Statistics Canada's tabulations

Chart 10
Retention Rate



Source: CIBC calculations based on Statistics Canada's tabulations

Chart 11
More Canadians Stay Employed For Longer



Source: Statistics Canada, CIBC

do find employment are increasingly likely to remain employed. Today there is a near-record high 60% chance of remaining employed after completing a first year on the job³ (Chart 9), with the retention rate naturally rising with tenure (Chart 10). The share of Canadians with a job tenure of more than five years is at a record high, and the share of those with less than one year in tenure is at a record low (Chart 11). That marks increased stability in the Canadian labour market.

This stable and boring job market is the complete opposite of what was envisioned not too long ago. The job market of the “new economy” was supposed to permanently alter employer-employee relationships and workers were seen as becoming increasingly disposable, with the implication that job stability would tumble.

Rising survival rates between years of employment and increased stability however, makes sense in a world where there is a low supply of newly unemployed—and

presumably still qualified—individuals. The situation today keeps employers motivated to keep workers they have. At the same time, a large overhang of long-term unemployed reduces the motivation of lower skill employees to branch out.

The reality for those who are looking for work are less rosy: fewer seats being vacated affords those long-term unemployed with fewer opportunities to find a way onto payrolls. Couple that with a skills mismatch and an aging population shrinking the workforce, and landing a job becomes harder today than it was previously. But the current environment also suggests that once that higher bar is cleared, a career featuring higher stability lies ahead.

To be sure, the business cycle isn’t dead and policy still plays a role in rebalancing labour market activity. But the job market’s evolving structure makes the balancing act much more challenging.

Note:

- 1) The residual is the difference between the U-6 and U-3 in the US, and the R8 and R3 measures in Canada. The U-3 is the headline unemployment rate in the US. The BLS describes the U-6 as the unemployed included in the U-3, plus “all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.” The R3 is calculated by Statistics Canada in a similar methodology as that of the US headline rate, and the R8 includes under-employed and marginally attached workers that the U-6 also captures.
- 2) Granted the Beveridge curve presented here has very little history (monthly observations since 2011)—but the findings are consistent with our previous research regarding that issue (see our In Focus titled “The Haves and Have Nots of Canada’s Labour Market” dated December 3, 2012).
- 3) The retention rate is the probability of an individual with t years of experience remaining employed at year t+1. See Heisz, A. (1996), Change in Job Tenure and Job Stability in Canada, Statistics Canada Catalogue no. 11F0019MPE.