

Canada's job recovery may not be the envy of the world after all

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As the federal government assembles its parliamentary agenda for the next two years, and Finance Minister Jim Flaherty begins preparing his 2014 budget, some emphasis should be placed on addressing the burden of Canada's mediocre economic recovery.

The government is often quick to remind us that Canada's economy has been the envy of the developed world, and that our recovery has been more solid than most. It especially likes to point out Canada's job creation performance. After falling sharply in the recession, total employment recovered within two years and is now 600,000 above its pre-crisis peak of 17.1 million.

As good as these numbers appear, however, the focus on total employment is a bit misplaced. U.S. Federal Reserve chairman Ben Bernanke often emphasizes that it is not good enough to have a growing economy; what is needed is sufficient growth to absorb the expanding labour force that naturally accompanies a growing population.

Canada's labour market is in better shape than America's, but Mr. Bernanke's point applies equally here, especially since Canada's population and labour force continue to grow at healthy rates. A better indication of the economy's job creation performance is the path of the employment-to-population ratio – and by this measure, our economic recovery is only mediocre.

Just before the crisis, total employment was 63.7 per cent of the population. It fell sharply during the recession, by more than two percentage points in less than 18 months, and then struggled to recover even to 62 per cent, where it has flat-lined for more than two years.

So, while Canada's economy is indeed producing more jobs every year, it isn't producing enough to adequately absorb the natural expansion in Canada's labour force. The result is that a growing number of Canadians who want jobs must search longer to get them, and many are unable to find them at all.

This brings us to the unemployment statistics. The official unemployment rate is now 7.1 per cent, well below its peak of 8.7 per cent in mid-2009. On the surface, this looks pretty good. But one reason the unemployment rate falls is that some people become so discouraged by their inability to find a job that they stop searching and drop out of the labour force; when this happens, the resulting decline in the unemployment rate is not good news.

Statistics Canada publishes an expanded measure of the unemployment rate that includes discouraged workers as well as workers who are working at part-time jobs even though they continue searching for full-time ones. This alternative unemployment rate is still above 10 per cent. Even worse is the prospect for Canadians between the ages of 15 and 24; their current unemployment rate is over 14 per cent, and has shown no sign of declining in almost two years.

The biggest burden of Canada's slow-growth recovery is likely borne by the long-term unemployed. Before 2008, roughly 12 per cent of unemployed Canadians had been jobless for six months or more; 4 per cent had been unemployed for more than a year. These fractions increased significantly during the recession, but neither has shown a tendency to fall since mid-2011. Today, about 20 per cent of unemployed Canadians have been without

work for more than six months, and over 7 per cent have been jobless for longer than a year.

An extended absence from work often causes a deterioration of skills, and so the longer one remains out of work, the harder it is to get back in. This sets up a vicious circle in the labour market from which escape is very difficult. For young workers who can't find that first or second job, an increased period of unemployment makes them less attractive for any potential employers, who naturally prefer applicants whose résumés lack sizable holes.

With both long-term and youth unemployment, the central problem is not just the absence of current income for those involved, it is also their diminished long-term prospects as productive members of the labour force. And so "their" problem is really a problem for the overall performance of the Canadian economy.

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