



January 29, 2007

## Looking Ahead:

### A 10-Year Outlook for the Canadian Labour Market (2006-2015)

#### Background Briefing on

# Future Labour Supply in Canada

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## Labour Supply Growth Will Slow Down in the Decade Ahead

According to a new report by HRSDC, Canada's labour force (those employed plus those unemployed) is expected to increase from 17.3 million people in 2005 to 19.1 million by 2015. The annual rate of growth of the labour force would average 1.3% over the period 2006-2010 and 0.7% over the period 2011-2015. This compares with 1.7% on average between 1996 and 2005, and peak growth rates of 2.9% in 2002 and 2.3% in 2003. The slowing of labour force growth over the next ten years is a consequence of the expected slowdown of population growth, combined with a declining rate of labour force participation as ageing baby boomers begin to retire.

The overall labour force participation rate is projected to drift down from 67.2% in 2005 to 66.7% by 2015 (the same level as in 2002), reflecting the rising share of older individuals in the population, who participate less in the labour force than core-age (25-54) individuals.

Immigration is already a significant contributor to population growth in Canada. The contribution of immigration to population growth is assumed to remain relatively stable between 2006 and 2015, representing an addition of 0.75% to the total Canadian population each year (close

to the average addition recorded over the past decade). On the other hand, emigration is assumed to subtract 0.2% from the total population every year. As a result of low fertility rates in the Canadian population, the constant inflow of new immigration (net of emigration) will account for an increasing share of population and labour force growth over the decade ahead.

## School Leavers Remain the Main Source of New Labour Supply

Growth in the labour force reflects both inflows from new labour market entrants and outflows of existing workers, mostly through retirements.

The number of students coming out of Canada's education system, whether with an incomplete high school or a PhD, will remain the primary source of new supply for the Canadian labour market, representing approximately 550,000 new labour market entrants each year over the next decade, more than in the 1980s and 1990s. The "school leavers" will account for *four fifths* of the projected total new annual inflow into Canada's labour supply (see Chart 1).

The number of new immigrants joining Canada's labour force will be much smaller than the number of school leavers: it is projected to increase to about 131,500 by

2015, up from approximately 121,000 in 2005.

The outflow from the labour force due to retirements is growing and will become increasingly comparable in scale to the inflow of school leavers.

### **Those with a Post-secondary Education to Be the Fastest-Growing Group of the Workforce**

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The labour force with a post-secondary education (college or university) is projected to continue to be the fastest-growing component of Canada's overall labour supply. This reflects the fact that a higher proportion of young people have post-secondary education (about 65% of the labour force aged 25 to 29 in 2005) than the older workers who are leaving the labour force (about 55% of those aged 55 to 64 in 2005).

The number of labour force participants who have a university degree is expected to rise at an average annual rate of 2.2% over the next 10 years, faster than for those with other levels of educational attainment. University degree holders would represent 24.4% of the labour force by 2015, up from 21.8% in 2005 and 13.8% in 1990 (the number of labour force participants with a university degree rose 4.4% a year on average over the period 1990-2005, compared with 1.3% for the overall labour force).

In contrast, the number of labour force participants who have less than a high school education is expected to decline at an annual average rate of 1.0% over the decade ahead. This group would represent 11.8% of the labour force by 2015, down from 14.6% in 2005 and 28% in 1990. Individuals with a high school or a college education are

expected to represent fairly constant shares of the labour force, at about 30% and 34% respectively (see Chart 3).

Although the average educational attainment of the labour force will continue to advance, the rate at which it does so will slow down. The baby-boomers were much more educated than their parents; their own children are also more educated than their parents, but by a narrower margin.

### **The Labour Supply Will Increase More Rapidly in Occupations Usually Requiring University Education**

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Reflecting the projections for the number of labour force participants by educational attainment, the number of labour force participants is expected to increase the most rapidly in occupations usually requiring university education, advancing at an expected average annual rate of 1.6%. In contrast, the number of labour force participants in occupations usually requiring less than high school will increase the least rapidly, at only 0.6% per year (see Chart 4).

### **Overall Labour Demand to Grow Broadly in Line with Labour Supply**

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The HRSDC report shows labour demand growing more or less in lockstep with labour supply over the next ten years. This is largely the consequence of the assumption that the Bank of Canada will be successful at keeping aggregate demand for goods and services broadly in line with Canada's production capacity, in order for inflation to stay within its target range.

Over the short term (2006-2010), labour demand is expected to grow at an annual rate of 1.4 per cent, slightly faster than the projected growth in labour supply (1.3%). Over the period 2011-2015, employment

growth is expected to slow down to 0.8% per year, again slightly faster than projected labour force growth (0.7% a year). As a result of this slightly faster growth in employment, the unemployment rate is projected to decline gradually to 6.0% in 2010 and 5.6% by 2015, down from 6.8% in 2005 (see Chart 2). This is partly a reflection of the rising share of older workers in the labour force, who tend to have fewer spells of unemployment than other workers.

### **Demand and Supply Will Also Grow in Line across Broad Skill Levels**

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HRSDC projections also show that future growth in labour supply will be broadly in line with demand when looked at across broad skill levels. Broad skill levels correspond to large clusters of occupations usually associated with different levels of educational attainment:

- management occupations, which often but not always require university education,
- occupations usually requiring university education,
- occupations usually requiring college education or apprenticeship training,
- occupations usually requiring secondary school and
- occupations requiring only on-the-job training.

The growth in employment has been fastest in the most skilled occupational groups, those normally requiring university education, and least in those requiring the least skills. Yet, the evidence suggests that the strong rise in demand within high-skilled occupations over the last twenty years has been met by a rising supply of qualified workers in Canada. Unemployment rates for most broad skill levels, relative to the average of the other skill levels, have not shown any discernable trends since 1987

and real wages by broad skill level have been fairly constant since 1997.

Over the next ten years, about two thirds of all job openings (those due to new job creation plus those due to retirements) are projected to be in occupations usually requiring a post-secondary education or in management occupations. The HRSDC projections suggest that future labour supply growth by broad skill level will be adequate to meet those needs.

### **Challenges to Match Supply and Demand in Specific Occupations**

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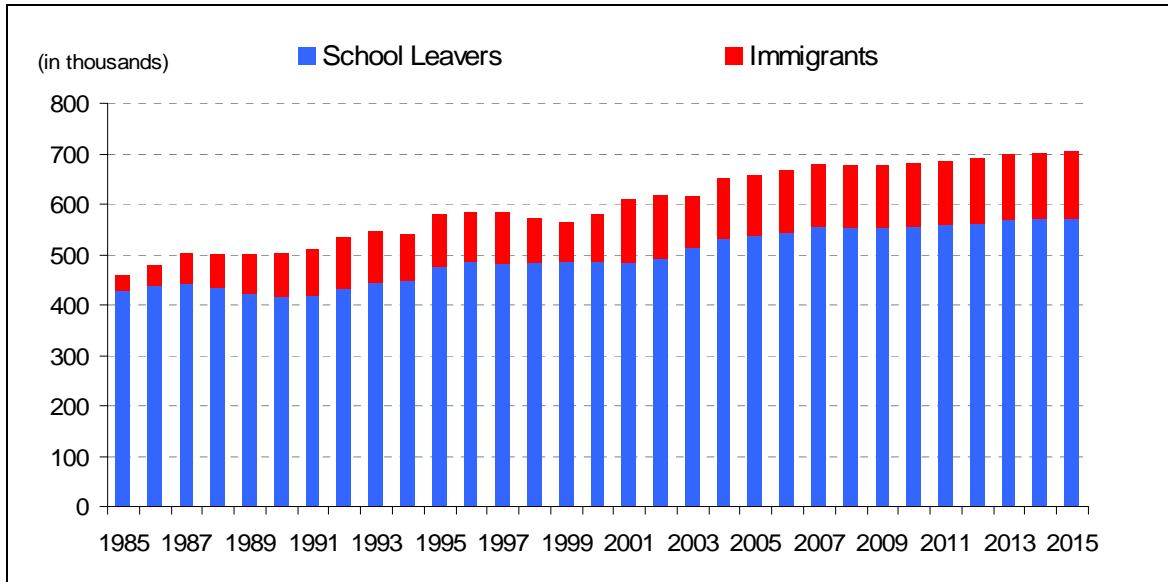
However, market imbalances are projected for several specific occupations within the broad occupational clusters. For instance, several occupations in the health sector are currently facing shortage pressures, a situation that is expected to continue over the next ten years. Shortages will arise in some occupations more so because workers will be retiring from existing jobs than because new jobs will be created. Retirements will account for over two of every three job openings on average in the decade ahead (up from one of every two job openings in the previous decade).

On the other hand, an excess supply situation is projected to persist in occupations (mainly low-skilled) specific to the primary sector and to processing, manufacturing and utilities, in sales and service occupations and among office equipment operators.

The simultaneous existence of occupations where there are jobs without workers and others with workers without jobs suggests that there is a challenge for matching school leavers and worker skills to the needs of the job market. While matching can never be perfect due to the inherent uncertainties of

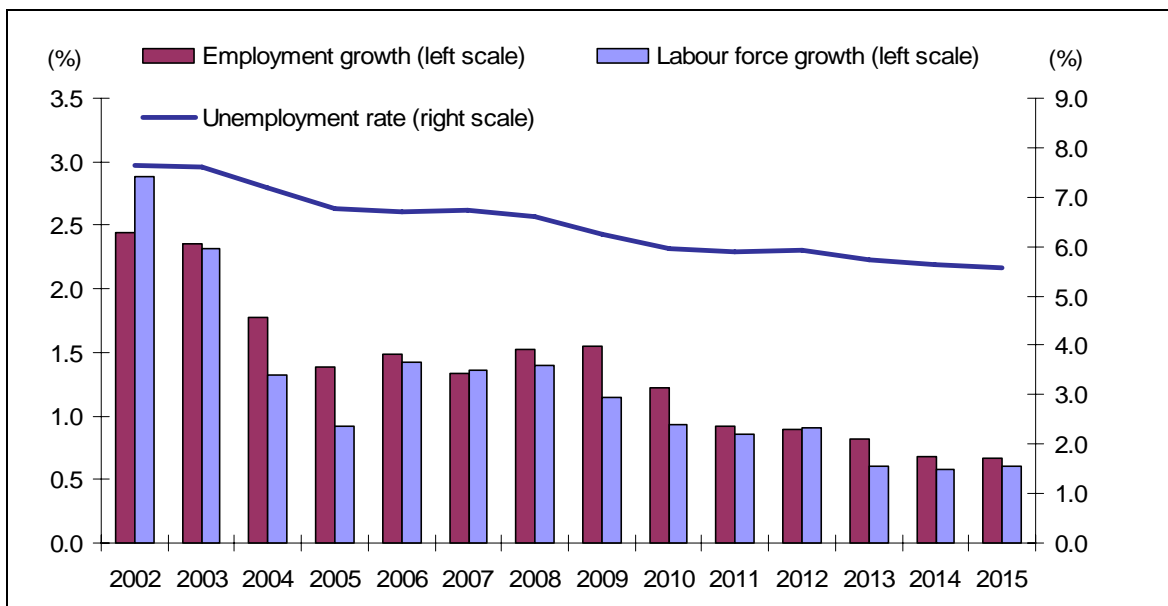
job market prospects, it can be improved with better labour market information on future shortages and surpluses by occupation and greater responsiveness of the post-secondary education system to the evolving skill needs of the labour market.

**Chart 1:**  
**New Labour Market Entrants: School Leavers and Immigration, 2006-2015**



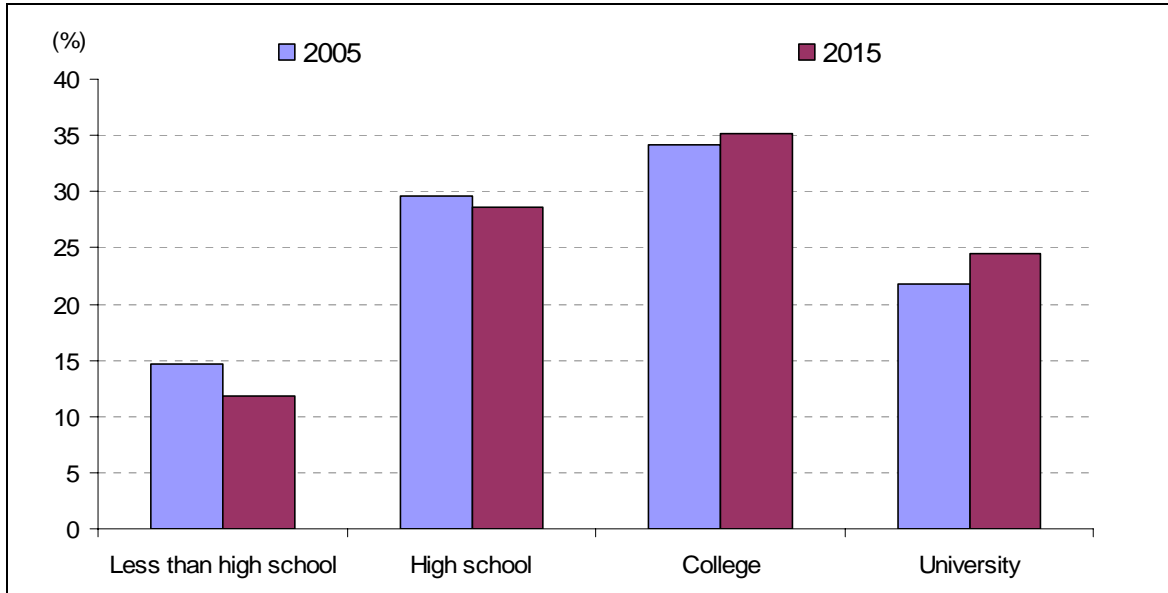
Sources: Statistics Canada and HRSDC, Strategic Policy Research Directorate (Looking-Ahead: A 10-Year Outlook for the Canadian Labour Market, 2006-2015, October 2006).

**Chart 2:**  
**Aggregate Labour Market Outlook, 2006-2015**



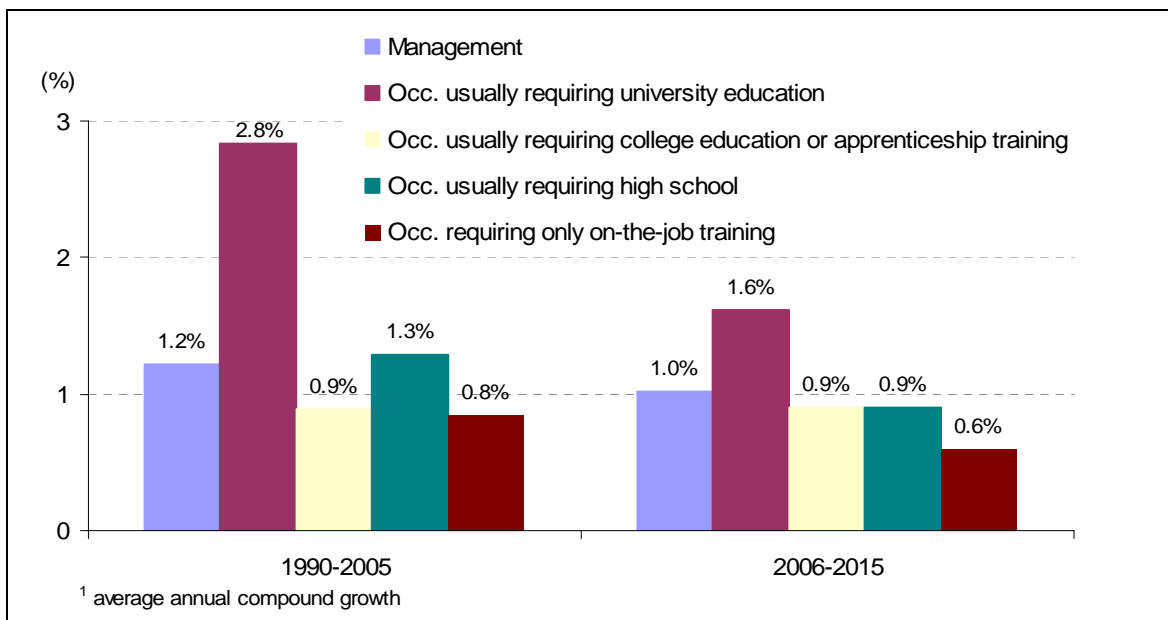
Sources: Statistics Canada and HRSDC, Strategic Policy Research Directorate (Looking-Ahead: A 10-Year Outlook for the Canadian Labour Market, 2006-2015, October 2006).

**Chart 3:**  
**Share of Labour Force by Educational Attainment**



Sources: Statistics Canada and HRSDC, Strategic Policy Research Directorate (Looking-Ahead: A 10-Year Outlook for the Canadian Labour Market, 2006-2015, October 2006).

**Chart 4:**  
**Labour Force Growth by Skill Level (Occupation)**



Sources: Statistics Canada and HRSDC, Strategic Policy Research Directorate (Looking-Ahead: A 10-Year Outlook for the Canadian Labour Market, 2006-2015, October 2006).