

Entering the Labour Market During Recession Can Leave Lasting Scars

Rannella Billy-Ochieng, Senior Economist | 416-350-0017
Anusha Arif, Research Analyst

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Highlights

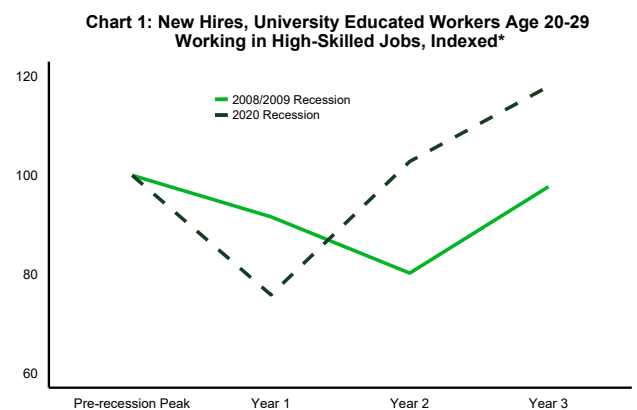
- First jobs are an important first rung of the career ladder. Entering the job market during a period of elevated unemployment can weaken that rung, leaving scars on workers who are younger and inexperienced.
- The impact on earnings of graduating into an economic downturn can linger even five years after graduation.
- Women and racialized persons are especially vulnerable since they tend to face labour market obstacles even in the best of times.
- Work integrated learning (WIL) programs offer a salve, bridging the gap between the classroom and workplace, helping students garner skills that improve their labour market outcomes.
- Voluntarily opting to take part in WIL yields greater advantages compared to mandatory participation.
- As the Canadian jobs market loses steam, career enhancing programs such as WIL can help to distinguish job seekers.

The first job a person gets after graduating from school is critical in shaping their career. Students who graduate during periods of elevated unemployment are less likely to find high-quality jobs than those who graduate when the economy is thriving. Graduates who start out underemployed do not fully benefit from the college wage premium and run the risk of still being behind their peers several years later.

The stakes are higher for diverse students such as women and visible minorities, groups that face greater career obstacles even in the best of times. While there is no cure-all for graduating into a recession, work-integrated learning (WIL) programs offer a way to improve labour market outcomes. The skills-enhancing opportunities available through WIL have been shown to reduce wage gaps faced by women and racialized communities. As the Canadian economy slows and job opportunities shrink, these will become even more important.

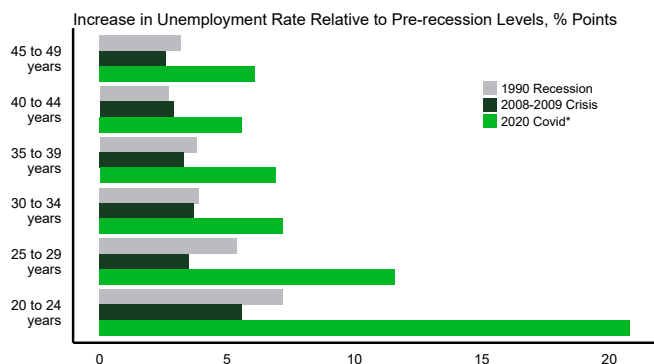
Graduating During a Recession Leaves Lasting Scars on Earnings

Recessions not only mean job losses but also fewer opportunities for development. During the global financial crisis (GFC), the share of university educated new hires working in high-skilled jobs plummeted by 20 percentage points from its pre-recession peak (Chart 1). This disruption took more than three years to recover.



*Pre-recession peak = 100. New hires are persons who have been working full time in their jobs with a tenure of six months or less. High skilled jobs are occupations that require at least a university degree. Source: Statistics Canada, TD Economics.

Chart 2: Joblessness Worsens Among Younger Workers During Recessions



*Increase in the unemployment during the Covid pandemic corresponds to the 2020 February and May 2020 time frame.
Source: Statistics Canada, CD Howe Institute, TD Economics.

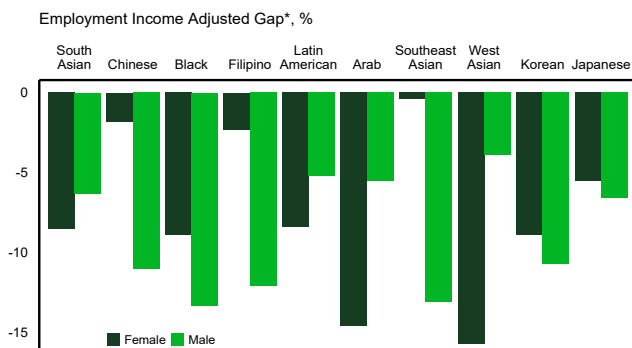
choice of first employer.

The results are worse for younger workers. College-educated individuals experience more than half of their lifetime real wage growth in the first ten years of employment.² As a result, younger workers with fewer years of experience tend to see greater earnings losses as a result of unemployment. They also tend to suffer greater employment losses during downturns. Indeed, Canadians aged 20 through 24 saw much higher unemployment rates than older workers during the last three recession episodes (Chart 2).

Diverse Students Face Earnings Gaps from the Start of Their Career

Diverse students tend to face even greater challenges. Women earn less than men right from the start of their careers – a gap that tends to grow over time. A Pew Research study for the United States found that females aged 16 to 29 earn 93% as much as their male counterparts. The report also showed that the gender pay gap widens with age and women persistently earn less than men do.³ At the same time, according to a recent Statistics Canada study, university graduates that identify as visible minorities tend to earn 8% less than their peers upon graduation (Chart 3).⁴ These studies were conducted in a normal economic environment; it stands to reason that gaps worsen in a more challenging one.

Chart 3: Racialized Canadians Tend to Earn Less After Graduation



*Adjusted gaps were calculated using a linear regression model, taking into account demographic and educational characteristics, namely graduation year, field of study, immigrant status, region of residence, age, population group, the presence of children and industry sector.
Source: Statistics Canada, TD Economics.

After the onset of the Covid pandemic, the share of new hires finding quality jobs fell by a similar rate, but fortunately recovered more quickly as restrictions were removed. When opportunities are hard to come by, workers often settle for less, and that affects the skills and earnings they are able reap.

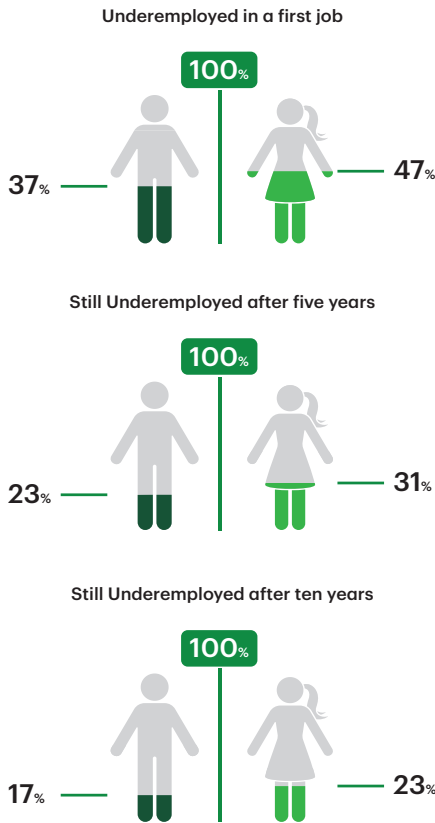
As high-quality employment options evaporate, people with less labour market experience tend to face greater disruptions than those who have been working longer. It's no surprise then that graduating during a slowdown leaves lasting scars on lifetime earnings. Students who graduate during economic downturns tend to earn less than their peers who graduated in better economic climates. These losses amount to about 9% of annual earnings and do not disappear until about ten years after graduation.¹ Research suggests that 30–40% of the initial wage losses for students starting in a recession can be attributed to the inadequate

People who start out behind are more prone to stay behind, and women are more at risk. Research shows that women are more likely to begin their career underemployed than men.⁵ Almost one in two women report working in jobs for which they are overqualified, while only 37% of males report doing so (Chart 4). This impacts women through their careers. For people who have a bad start, the likelihood of remaining underemployed after five years is more than 60%.

Work-integrated Learning (WIL) Offers a Way for Students to Improve Labour Market Outcomes

Work integrated learning (WIL) can help to close the divide between theory and practice. It cultivates essential workplace skills such as networking, problem solving, and data analysis. These opportunities enhance students' career prospects. A recent Statistics Canada paper found that taking part in WIL programs increased the probability of

Chart 4: Women are More Likely to be Underemployed



Source: Strada Institute for the Future of Work, Burning Glass Careers in Focus, TD Economics

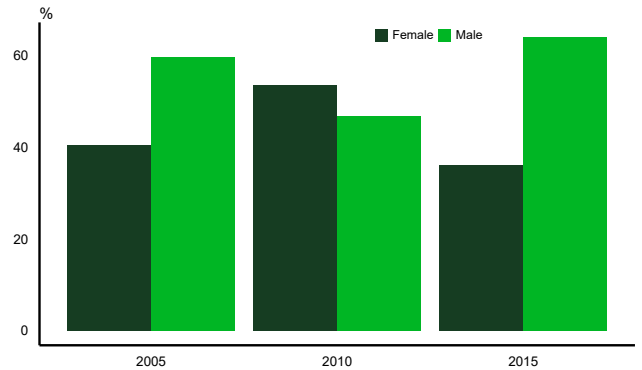
graduates being employed in a field related to their program of study. The study also notes that bachelor's graduates that took part in WIL had 7% higher earnings than those that did not. The skills students gain through WIL programs give them a competitive advantage in any labour market environment. This is most relevant for students as their first job after graduation can either become a solid ground or stumbling block for their career in the long run.

The skills-enhancing opportunities available through WIL are also relevant in closing gaps faced by women and visible minority communities. Research shows that women who took part in co-op programs received wages closer to those of non-participating male peers than women who opted not to participate.⁶ Graduates who were immigrants and visible minorities had returns to co-op participation that were, on average, sufficient to overcome the wage gap. These results suggest that co-op and WIL programs have a role to play in reducing wage and employment gaps traditionally associated with biases towards individual characteristics.

Being more job ready offers students more collateral when job searching in a weaker economic environment. This may explain why young women were more likely than young men to enroll in WIL programs following the global financial crisis (GFC) in 2010, a trend reversed in 2015 as the economic environment improved (Chart 5). Given the stakes, enrollment in WIL should not just be counter-cyclical but instead, females should take advantage of these programs in all economic climates.

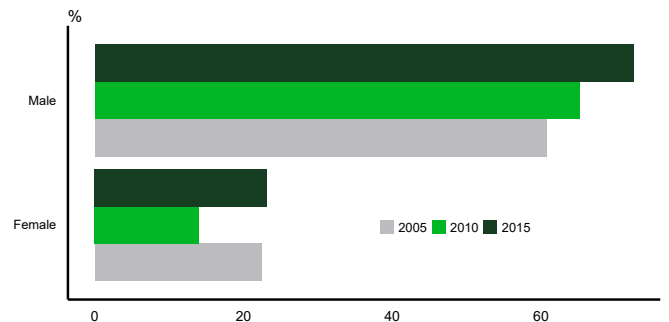
Gains from enrollment in WIL programs accrue more to those who voluntarily participate than those for whom it is a required element of their education. High voluntary participation WIL programs include mathematics, computer and information technology, architecture, engineering and related services, and agriculture, natural resources, and conservation. Young males have a higher share of enrollment in programs with higher level of voluntary participation com-

Chart 5: Distribution of Male vs Female Co-op Students Across Cohorts



Data refers to students who graduated from a bachelor's co-op program. At the time of survey they were aged 29 or below and worked in their first job after graduation. Source: National Graduate Survey - Class of 2005, 2010, 2015, TD Economics.

Chart 6: Distribution of Co-op Students With High Level of Voluntary Enrollment in WIL



Data refers to students who graduated from a bachelor's co-op program. At the time of survey they were aged 29 or below and worked in their first job after graduation. High level of voluntary enrollment includes students enrolled in mathematics, computer and information sciences, architecture, engineering, and related technologies and other (includes agriculture, natural resources and conservation; personal, protective and transportation services). Source: National Graduate Survey - Class of 2005, 2010, 2015, TD Economics.

Chart 7: Cooling Labour Markets Push the Unemployment Rate Higher



Source: Statistics Canada, TD Economics.

pared to females (Chart 6). Young female students may not be fully maximizing the advantages of WIL, especially as it pertains to the voluntary part of their education.

Visible minorities are entering the labour market at a record pace, a slowing job market will hit them hardest

Despite strong headline job growth, Canada’s jobs market is losing steam. Since hitting a trough of 4.9% in July of last year, the unemployment rate has risen to 5.8% as of December. Jobs searchers are beginning to feel the squeeze as rapid growth in population coincides with fewer opportunities. The unemployment rate for prime-aged racialized Canadians has increased by over more than the average rate, rising by 1.1 percentage points in the last year (Chart 7). This outsized increase in joblessness among diverse Canadians is in part due to the fact that they are more likely to be newer to the country, with

less social capital and less job specific experience in Canada. As the unemployment rate likely continues to move towards 7% in the coming months, diverse Canadians are likely to suffer an outsized impact.

Bottom Line

Career-enhancing opportunities become increasingly more relevant to distinguish talent as workers compete for fewer opportunities. As employment opportunities shrink, hiring managers will seek out workers who are more jobs ready. The stakes are higher for women and visible minorities who tend to face frictions in finding ideal employment. Having a meaningful career journey depends to a large extent on getting the right start. Job preparedness programs offer a meaningful way to improve labour market outcomes.

Endnotes

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