

Looking-Ahead: A 10-Year Outlook for the Canadian Labour Market (2004-2013) - Highlights

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What is the Looking-Ahead Report About?

This report fills an important information gap, as no other publication currently provides a comprehensive outlook for Canada's labour market over the medium term, including a detailed outlook by industry, skill and occupation. More specifically, the report tries to answer the following questions:

- How many jobs are expected to be created over the period 2004-2013?
- In which industries and occupations will these jobs be created?
- What will be the impact of retirements on job openings?
- What kind of education is required to fill these positions?

- Will the new supply be sufficient to meet this new demand?
- Will there be occupations facing significant labour market pressures?

The report also looks at the performance of Canada's labour market over the last 15 years or so in order to be able to see how the outlook compares with recent experience.

The macroeconomic forecast that underlies the labour market outlook includes actual economic data up to 2003.

The Canadian labour market was quite healthy in 2003, following a long period of uneven performance

Over the period 1987-2003, total employment in Canada grew at an annual average rate of 1.5%. By 2003, the unemployment rate had decreased to 7.6%, well below the peak of 11.4% reached in 1993, while the rate of labour force participation had increased to 67.5 % and the employment rate to 62.4%, their highest values by then.

However, the period 1987-2003 was not a period of steady performance in the labour market. Considerable fluctuations did happen. The first half of the 1990s was marked by slow employment growth and declining labour force participation rates, in a context of weak output growth and industrial restructuring. The late 1990s saw more rapid economic growth and a return to hiring in the public sector that led to stronger employment growth. Participation rates climbed back towards their pre-recession level and the unemployment rate declined to levels not seen in two decades. Then, a new economic slowdown, largely induced by the recession in the United States, limited employment gains in 2001. But this slowdown was short-lived and employment growth strengthened in 2002 with steady gains in 2003.

Over the period 1987-2003, the service share of employment continued on an upward trend...

Looking at labour market developments over a long period allows one to see through cyclical fluctuations and to identify underlying long-term structural trends. One of these long-term structural trends is the secular upward shift in the service share of total employment, which continued over the period 1987-2003 with employment growing more rapidly in services-producing industries (average annual growth of 1.9%) than in goods-producing industries (average annual growth of 0.5%). By 2003, service industries (including health care and public administration) employed 3 of every 4 workers, up from 70% in 1987. One factor underlying the slower growth of employment in the goods-producing sector is higher labour productivity: over the period 1987-2003, output per worker in the goods-producing sector increased at an average annual rate of 1.6%, compared with 1.2% in the services-producing sector.

Over the period 1987-2003, job growth within the service sector was particularly strong in industries such as management and administrative services, and professional, scientific and technical services. These industries benefited from the expansion of information and communication technologies and the

increasing importance of production activities that require a more intensive use of information and specialized knowledge.

...while employment in the goods-producing sector remained more sensitive to economic downturns

The majority of goods-producing industries experienced slow employment growth over the period 1987-2003. These industries, which tend to be more sensitive to economic downturns than services industries, were hard hit by the recession of the early 1990s. In particular, close to 350,000 jobs were lost in manufacturing industries between 1989 and 1993. While employment in manufacturing grew strongly in the second half of the 1990s, reflecting a stronger domestic economy and robust growth in exports to the United States, weaknesses reappeared in 2001 and 2003 as the slowdown of the U.S. economy and then the sharp increase in the value of the Canadian currency vis-à-vis the U.S. dollar resulted in declines in Canada's volume of exports to the U.S.

In some goods-producing industries, factors other than cyclical conditions also contributed to curb employment growth. For example, employment in the agriculture sector declined by almost 30% over the period 1987-2003, reflecting a long-term movement towards fewer but bigger farms, rising farm productivity, as well as the impacts of a number of adverse shocks, including droughts in 2000 and 2001 and, more recently, the beef embargo imposed by the United States.

Most of the growth in employment was in high-skilled occupations

Six out of 10 new jobs created in Canada during the period 1987-2003 were in high-skilled occupations (which usually require a university education, a college education or an apprenticeship training) and in management occupations (for which the range of required education varies considerably across sectors as experience is often a more important consideration). By 2003, high-skilled occupations represented close to 56% of all employment in Canada. In particular, the share of occupations that usually require university education in total employment reached 16.5% in 2003, up from 13.0% in 1987.

The educational attainment of Canada's labour force has kept pace with the rising skills demand

Between 1991 and 2003, the labour force with a post-secondary education has increased rapidly in Canada. The number of labour force participants with a university education rose at an average annual rate of 4.6% while the number of participants with a college education rose at a 3.3% annual rate.

In contrast, over the same period, the number of labour force participants with a high school education rose by only 0.8% per year while the number of participants with less than high school actually declined, by an average of 2.8% per year.

The average number of years of education in the Canadian population of working age was 12.5 in 1990. Since then, it has risen to around 13, an increase which appears to have been strong enough to meet the rise in the level of skills demanded by employers. For instance, although employment growth was

skewed towards high skilled occupations, the rates of unemployment among workers of different skill levels (less than high school, high school, college certificate or diploma and university degree) evolved in a generally similar fashion over the period 1990-2003.

Sustained economic growth has also led to robust job creation in low-skilled occupations

As they tend to be more concentrated in cyclical industries such as trade, manufacturing and transportation, low-skilled occupations are generally more vulnerable than high-skilled occupations to economic slowdowns. Indeed, during the recession of the early 1990s, hundreds of thousands of low-skilled jobs were lost, whereas employment in high-skilled occupations continued to increase.

However, every year since 1998 (with the exception of 2001), employment growth has actually been stronger in low-skilled occupations than in high-skilled occupations as a result of sustained economic growth and strong demand for labour, in particular in industries such as construction and sales and services.

Will such trends continue over the medium term?

Information about future trends in the labour market can be useful for workers, students and immigrants in their employment and education decisions. The same information can also be of value to employers for their human resources decisions. Of high interest to many is whether the broad trends of recent years in labour demand and supply will continue in the future or whether significant changes can be expected.

HRSDC uses forecasting models to identify likely trends over the medium term in the level, composition and sources of labour demand and labour supply and in the industrial and occupational distribution of employment. Also, the forecasting models help in identifying those occupations where the current and projected states of supply and demand suggest that imbalances can develop or persist over time.

Adjustments of demand and supply in response to imbalances may operate at different speeds and through different channels in different occupational labour markets. We do not project how imbalances will work their way out, but rather see the projections of labour supply and demand as important for those making decisions about prospective job markets, whether an oil company about to build a tar sands plant or a student wondering what career to study for.

Employment growth over the medium term will be determined by economic and demographic developments...

Canada's real GDP is expected to advance at an average annual rate of 3.0% over the period 2004-2008, a result of conditions favourable to consumer demand and to business investment in machinery and equipment and in non-residential construction. This expected growth is slightly slower than the average 3.5% annual growth rate recorded over the previous 5-year period (1999-2003), due primarily to a decline in residential construction as housing starts return to a level consistent with the pace of

household formation.

Real GDP is expected to increase at a rate of 2.7% per year over the period 2009-2013, in line with its estimated long-term capacity, which takes into account a projected slowdown in labour force growth induced by demographic factors.

Due to the decline in the fertility rate that began several decades ago, the youth population (those aged 15-24) will not be increasing much over the period 2004-2013. In addition, increasing numbers of workers from the large baby-boom generation will be reaching the age of retirement. These two factors will lead to slower growth in the labour force, even with immigration continuing at current levels. Over the period 2004-2013, the labour force is expected to grow at an average annual rate of 1.0%, much slower than the 1.6% rate of the period 1993-2003.

In addition to the pace of economic expansion, the rate of labour productivity growth also influences firms' demand for workers. Growth in labour productivity (measured here as output per worker) is expected to average 1.6% over the period 2004-2013, compared to an average rate of 1.1% over the period 1977-2003. The expected improvement in productivity growth is associated with the robust growth in machinery and equipment investment leading to a higher capital-to-labour ratio.

... which will result in slower but sustained employment growth and further declines in the unemployment rate

As a result of projected growth in real GDP and labour productivity, overall employment is projected to grow at an annual average rate of 1.2% over the period 2004-2013, somewhat less rapidly than over the period 1987-2003 (average annual rate of 1.5%).

With sustained increases in labour demand and slow growth in the labour force, the unemployment rate is expected to decline gradually towards 6.0% by the end of the forecast horizon of 2013.

Two-thirds of new jobs are expected to require a post-secondary education or be in the management group...

Over the period 2004-2008, two-thirds of new jobs will require a post-secondary education or the qualifications needed for management positions (in 2003, about 58% of all non-student workers were either in jobs requiring a post-secondary education or in management occupations). More specifically, over the period 2004-2008, the highest rate of employment growth is expected to be in occupations that require a university qualification (annual average of 2.3%).

Factors that contribute to the forecast of strong employment growth in high-skill occupations include the continued shift to a knowledge-based economy and increased public spending in the health care sector.

The pace of employment growth is projected to be much weaker (annual average of 0.7%) in low-skill

occupations (those usually requiring only on-the-job training).

... while the educational attainment of the labour force will continue to rise

The labour force with post-secondary education (university, college or apprenticeship training) is projected to continue to be the fastest growing component of labour supply. More specifically, the number of labour force participants holding a university degree is expected to rise by 2.2% annually on average over the period 2004-2013 to reach 23.1% of the labour force in 2013, up from 20.4% in 2003 (and 13.8% in 1990). On the other hand, the labour force with less than high school is expected to continue to decline over the medium term (by an average of 0.8% per year).

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

Employment growth should continue to be stronger in services

In the period 2004-2008, the upward trend in the service share of employment is expected to continue with annual employment growth averaging 1.7% in services-producing industries (representing an addition of 1.1 million jobs), compared to 1.0% in the goods-producing sector (an addition of 0.2 million jobs). In the following years, 2009-2013, employment is expected to grow at about the same pace in both the goods- and the services-producing sectors (0.9% per year on average).

Within the services-producing industries, the forecast over the short term horizon (2004-2008) shows the strongest employment growth in health occupations (3.5% annually) reflecting primarily increased public spending for the provision of health care services. The forecast also shows strong employment growth in the systems design and services industry (2.8% annually) due to the increasing use of computer technology, and in professional services such as scientific, technical and advertising services (2.4% annually) reflecting a recovery in non-residential investment. Also, an improving budgetary situation in the public sector should lead to above-average employment growth for the family of occupations related to the social science, education and government service domain (2.0% annually).

However, over the same period, some service industries are expected to experience weak employment growth. For instance, employment gains in the finance, insurance and real estate industry grouping should be modest (0.5% annually) as a result of a slowdown in residential construction and increased automation of financial services.

In the goods-producing sector, employment growth is expected to be strong in areas such as mining (2.4% annually), electrical and electronic products (2.9% annually), transportation equipment other than motor vehicles (2.7% annually). Employment is expected to decline in some industries, such as forestry (due to a drop in housing starts and the softwood lumber conflict) and fishing (due to supply constraints).

School leavers will remain by far the main source of new labour supply in the Canadian economy

It is often claimed that immigration will account for all of Canada's labour force growth in the coming decades. Indeed, over the forecast period, population ageing leads to diminishing rates of growth for the population of working age and for the labour force, and these growth rates would be weaker in the absence of new immigration. However, students coming out of the education system — or 'school leavers' — will remain, by far, the primary source of new supply for the labour market.

The majority of job openings will be the result of retirements

Job openings are not created only for additional employment needed to meet the expanding demand for goods and services. A second source of job openings results from existing positions left vacant, for instance when workers decide to retire, and for which replacement workers are needed.

With the retirement of many baby boomers, the majority of job openings over the forecast period will be due to the need to replace retired workers. Over the period 2004-2008, it is expected that about 1.3 million new jobs will be created due to increasing economic activity, while close to 1.5 million positions will be freed up by retirements. Therefore, about 54% of all job openings during that period will be the result of the need to replace retired workers, up from 43% in 1995. Retirements will account for an even higher share of total job openings in the longer term.

High-skilled occupations in health, and in social science, education and government service will face the greatest retirement pressures

About 2.0% of workers are expected to retire each year over the period 2004-2008. However, retirement pressures will be stronger in those occupations where the usual age of retirement is lower and where a larger proportion of the workforce is approaching the point of retirement. For instance, 3.2% of workers in the social science, education and government service occupations and 2.6% of workers in the health occupations are expected to retire each year during the period 2004-2008. Key occupations that will face strong retirement pressures include elementary/secondary school teachers, registered nurses, and managers in health, education social and community services.

Several occupations will face significant labour market pressures

For a number of occupations, the demand for workers arising from increasing demand for goods and services and from retirements is expected to significantly exceed additions to the supply of workers from school leavers and immigration. As a result, these occupations should face significant labour market pressures over the medium term, in the form of upward pressures on wages and/or downward pressures on the unemployment rate.

Several of these occupations are concentrated in the health sector, such as nurses, physicians, pharmacists, medical laboratory technologists and technicians. The expected labour market pressures in

those occupations often result from factors that restrain supply growth, such as long training time (for example, up to seven years and more of university for physicians) and a limited capacity of educational institutions to accommodate large increases in enrolments.

Other occupational groupings expected to experience future labour market pressures include management occupations (in particular, managers in public administration and human resources managers) and occupations in social sciences and government service (especially social workers and managers), largely as a result of retirements. Several occupations in the trades (such as residential home builders and renovators and aircraft mechanics and inspectors) are also expected to face labour market pressures, mostly as a result of weak growth in the new number of new workers entering these occupations.

Updating the labour market outlook

HRSDC's labour market and occupational projections are updated on an annual basis to incorporate new economic, demographic and labour market information. A report presenting the results of the 2005 projections, for the period 2005-2014, should be released later this year.