

POLICY BRIEF

**Failure to Launch: The Economic and Social
Costs of Youth Unemployment in Canada
and the Long-Term Impacts**

November 2024



**King's Trust
Canada**

Canada's Youth Unemployment Crisis

Youth are society's future. However, getting their start is becoming increasingly difficult in Canada. In this context, The King's Trust Canada engaged Deloitte to prepare a socio-economic impact analysis of youth underemployment and unemployment. This report provides an overview of the current labour market and assesses the economic and social costs of youth unemployment. It also estimates the potential economic and fiscal benefits and costs from addressing this issue.

Young workers aged between 15 and 24 are disproportionately represented in the ranks of the unemployed. In July 2024, the youth unemployment rate hit 14.2%, its highest level since September 2012, excluding the pandemic-affected years of 2020 and 2021. What's more, underemployment is becoming a growing issue. The number of youth working part-time involuntarily has been rising in recent months.

When unemployed, youth cannot develop and grow their skills and social networks. This results in short-term losses in wages and long-term reductions in their earning potential, referred to as wage scarring. What's more, unemployment has unequivocal negative consequences in terms of mental and physical health and numerous other social impacts. All said, these impacts result in much broader consequences for the economy, and governments must contend with lost tax revenues whilst paying more for health, welfare, and other social services.

Many youths aged between 15 and 29 are neither employed nor engaged in education or training (NEET). This group of over 850,000 individuals is particularly vulnerable to poor and persistent economic, social, and health outcomes. Moreover, some groups continue to face additional barriers, including gaps in educational attainment, prejudice, and a lack of support,

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which prevents them from participating fully in the world of work.

Our analysis shows there is a tremendous economic opportunity in achieving higher levels of youth engagement in the workforce. Our estimates indicate that under the right conditions, overall real GDP could increase by \$18.5 billion by 2034 – more than Canada's entire arts, entertainment, and recreation sector – and add an additional 228,000 jobs in the process. A significant windfall to our economy.

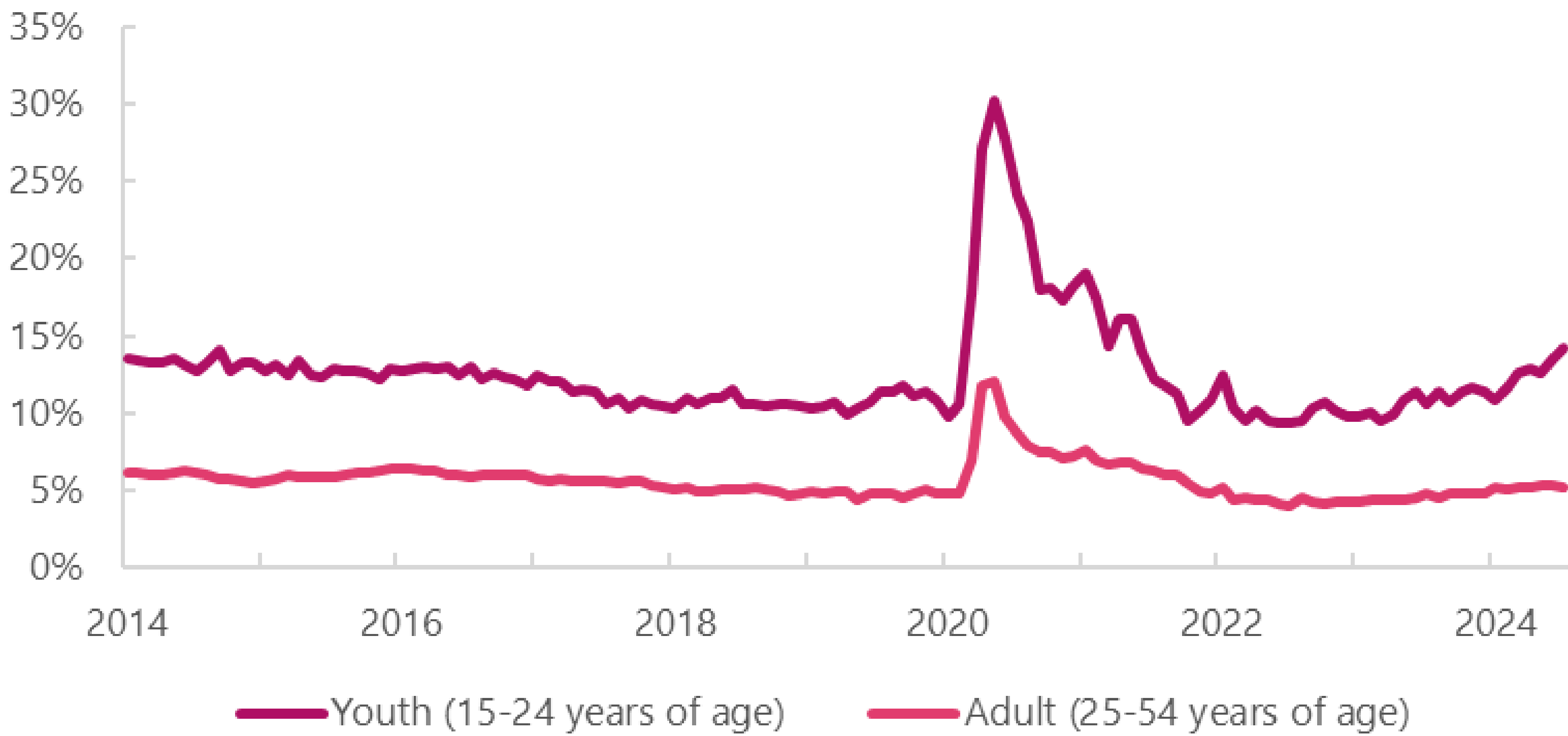
There are many initiatives that can help Canada seize this opportunity. Collaboration between governments, businesses, and non-government organizations will be critical. It will also require a holistic and comprehensive set of policies, ranging from education and skills development to employment services, subsidized employment, and entrepreneurial support.

For maximum impact, interventions should be tailored to the specific needs of youth facing barriers. Most importantly, however, it requires a mindset shift to realize that this is indeed an important social and economic issue which, if left unresolved, can have material short- and long-term consequences.

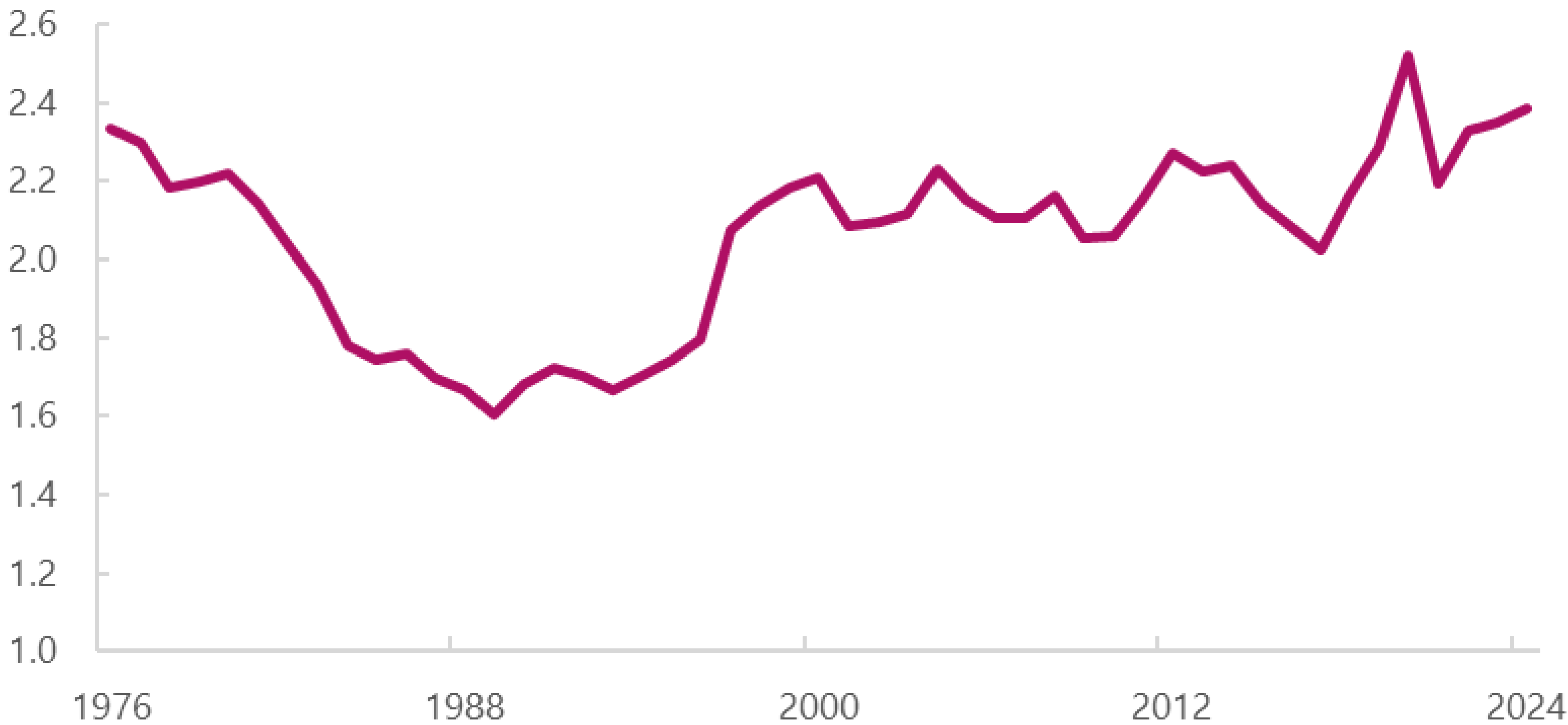
Key Challenges

- 1 More People, fewer Jobs** ● The number of youth looking for work has increased, but the number of available jobs has not grown at the same rate.
- 2 Increased competition** ● Jobs in key youth employing sectors are seeing heightened competition amongst workers because of government policies, such as the Temporary Foreign Worker (TFW) program.
- 3 Fewer full-time jobs** ● Youth employment is becoming increasingly dominated by part-time and temporary roles, increasing the risk of involuntary part-time employment.
- 4 Some are more vulnerable** ● Educational attainment, qualification recognition and increasing prevalence of disabilities create additional barriers for certain youth groups.
- 5 Higher education costs** ● Youth are paying more for education to access the same level of employment opportunities and potentially leading to overqualification.
- 6 Less on-the-job training** ● Compared to other countries, Canadian employers invest less in the learning and development of their workers than international peers, slowing skills development and productivity

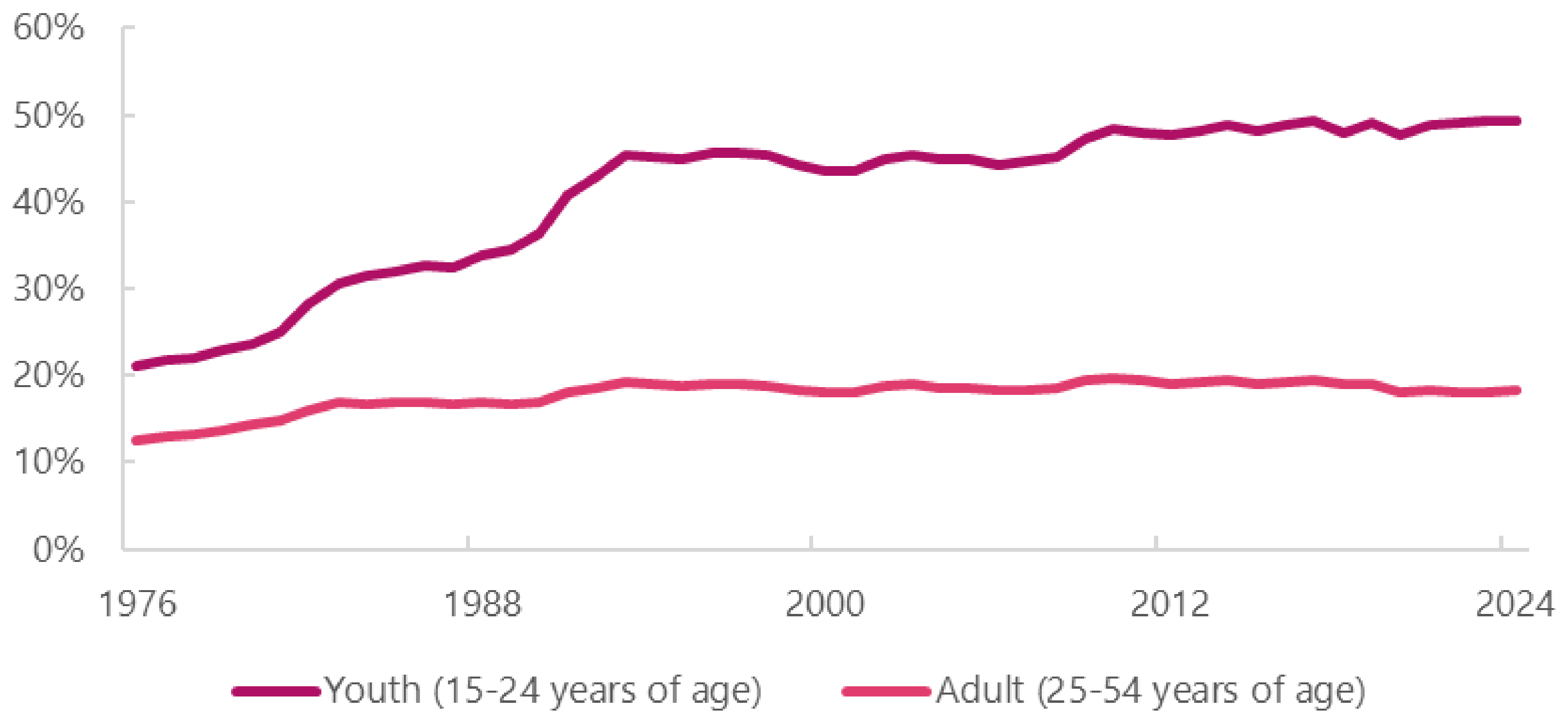
Unemployment rate for young people vs adults



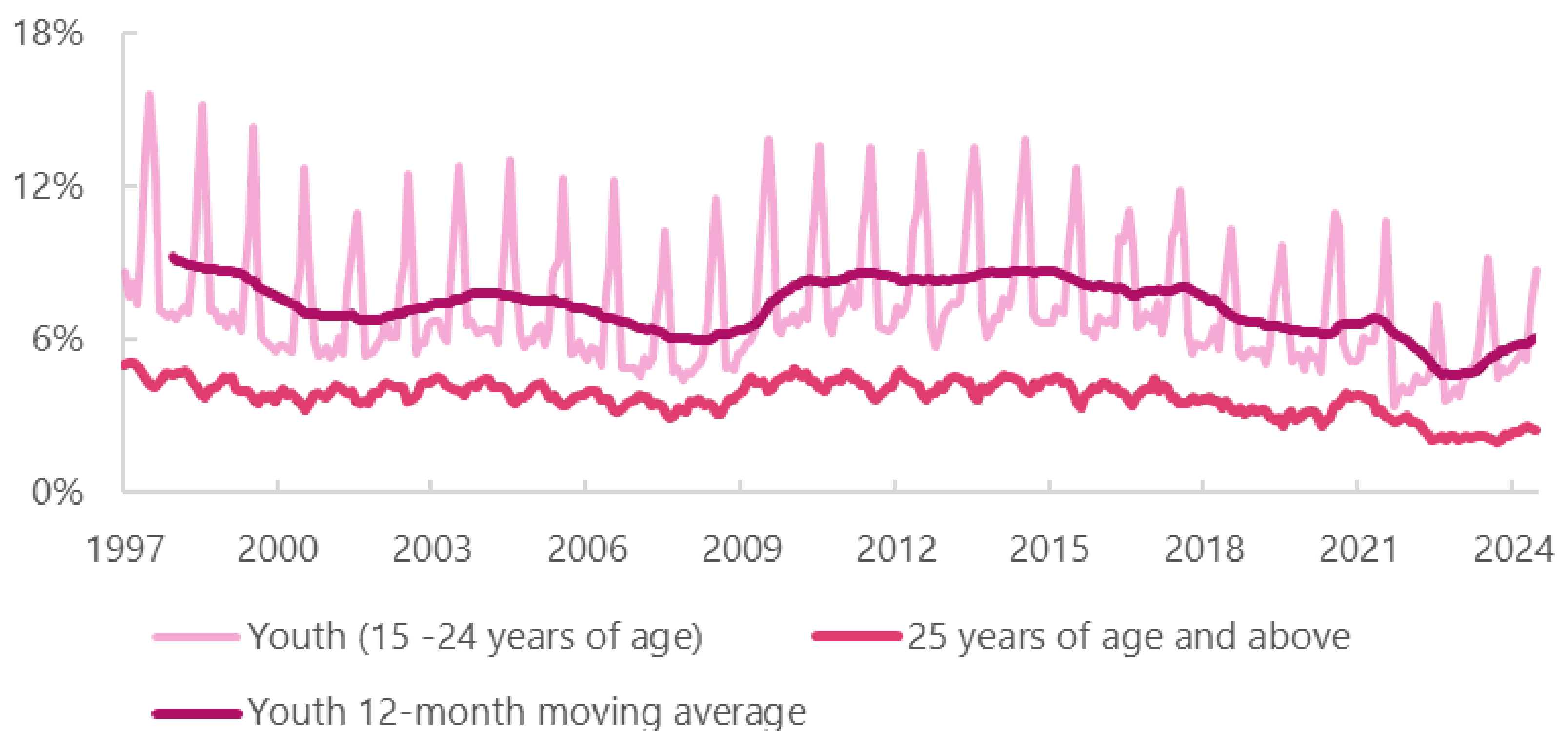
Youth to adult unemployment ratio



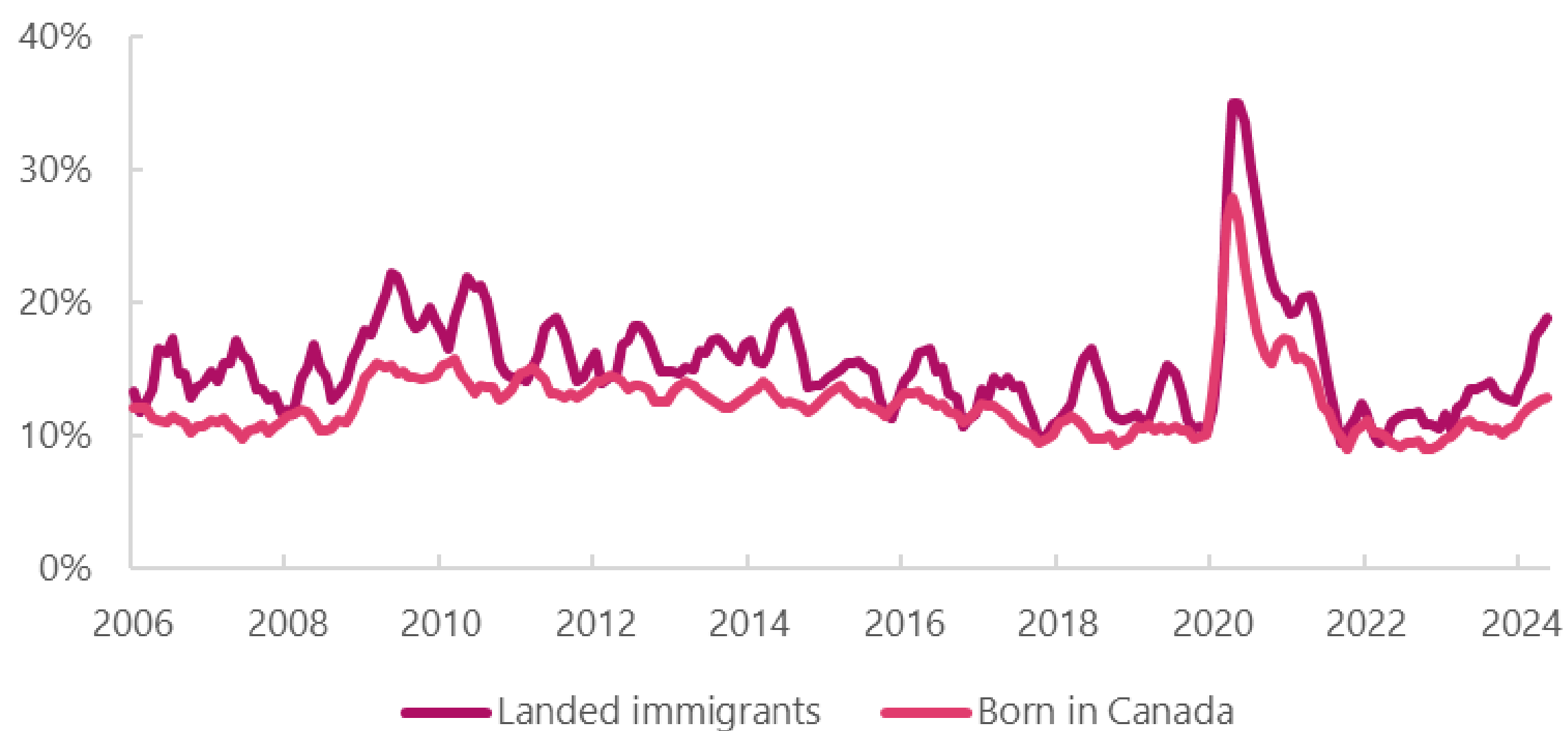
Part-time employment as a % for young people and adults



Share of part-time employment, young people vs adults

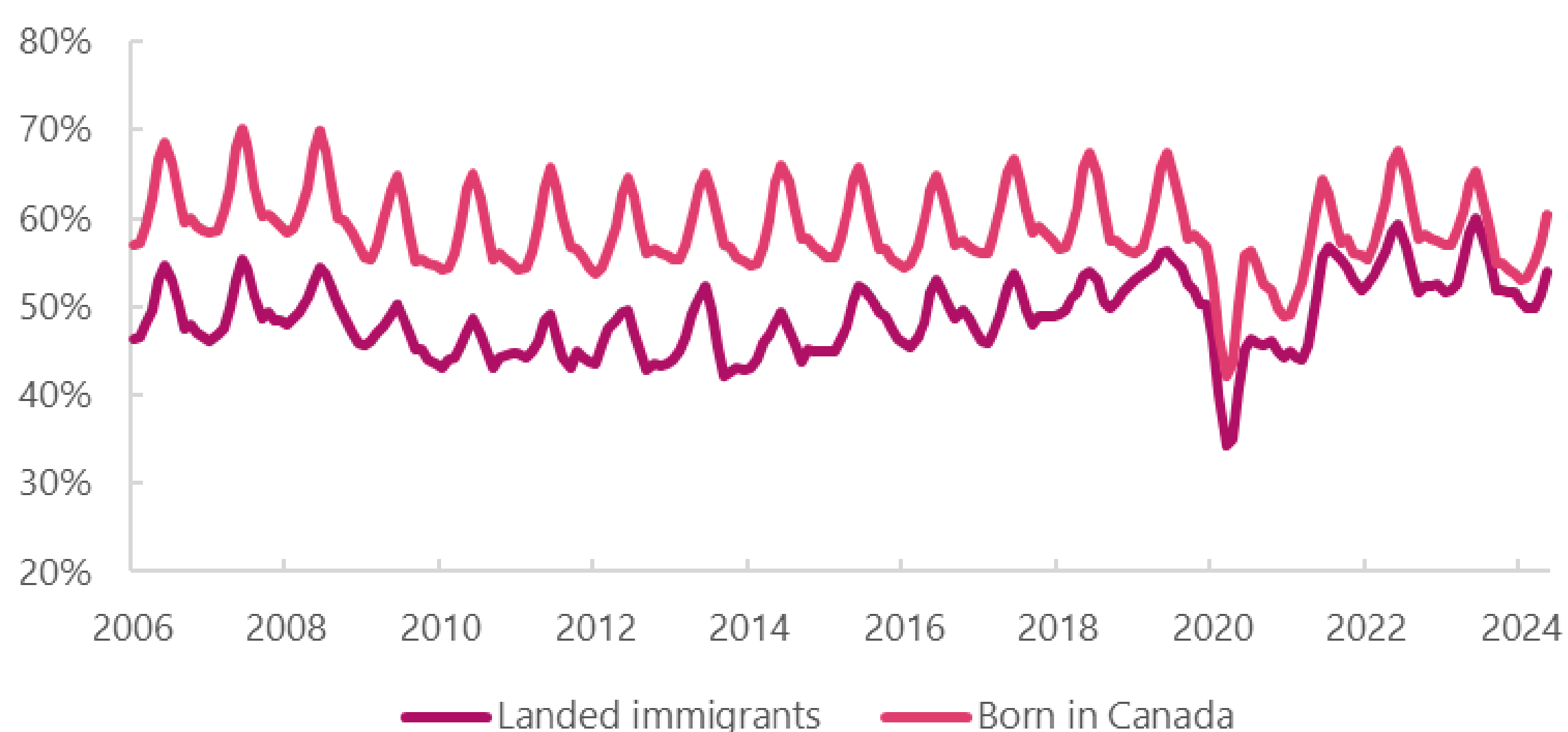


Youth unemployment rate amongst immigrants vs Canadians



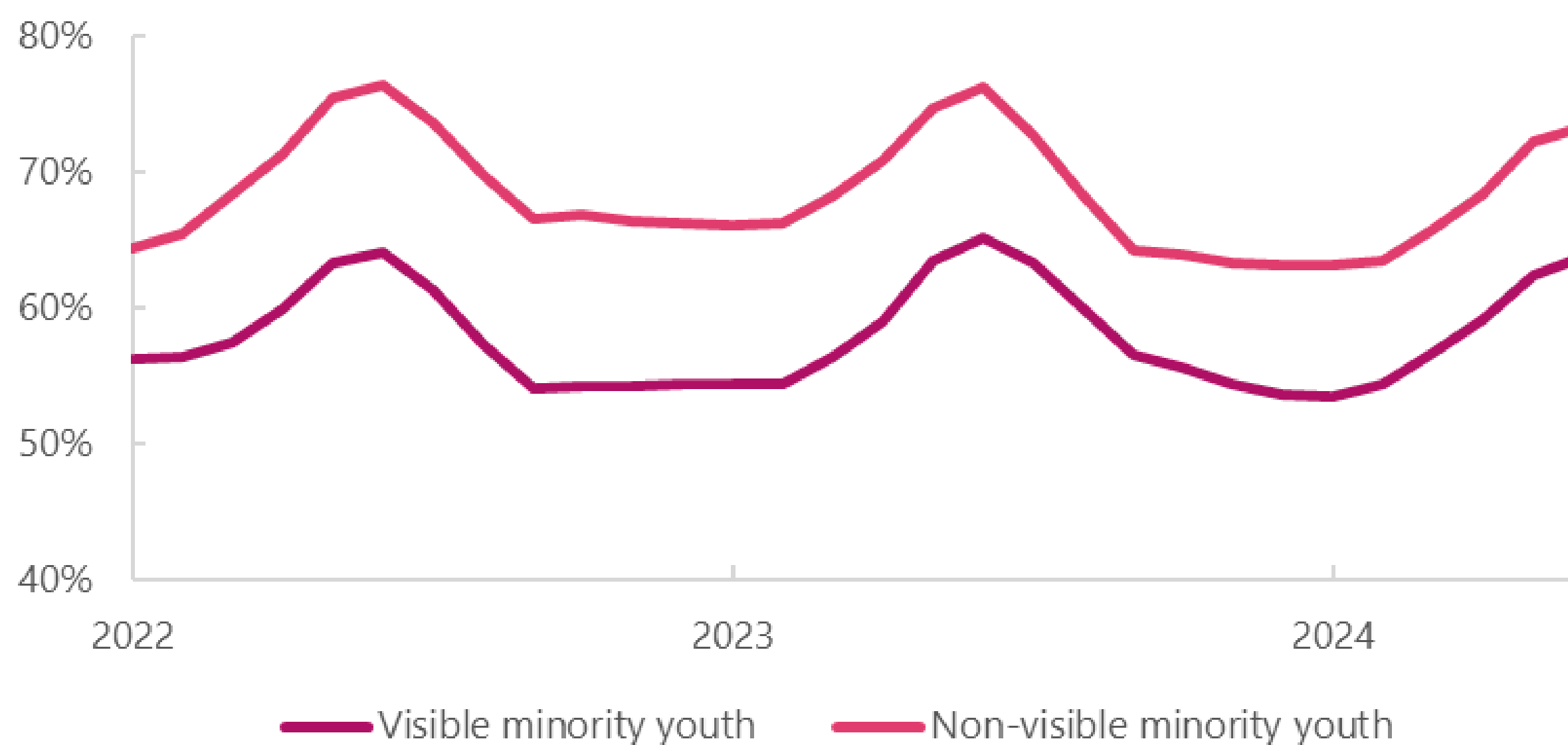
Certain youth groups in Canada face heightened employment challenges, with immigrant youth particularly vulnerable. Landed immigrants consistently have higher unemployment rates than Canadian-born individuals. Since 2006, the youth unemployment rate for immigrants has averaged 2.9 percentage points higher, reaching a gap of 5.9 points in July 2024.

Youth employment rate amongst immigrants vs Canadians



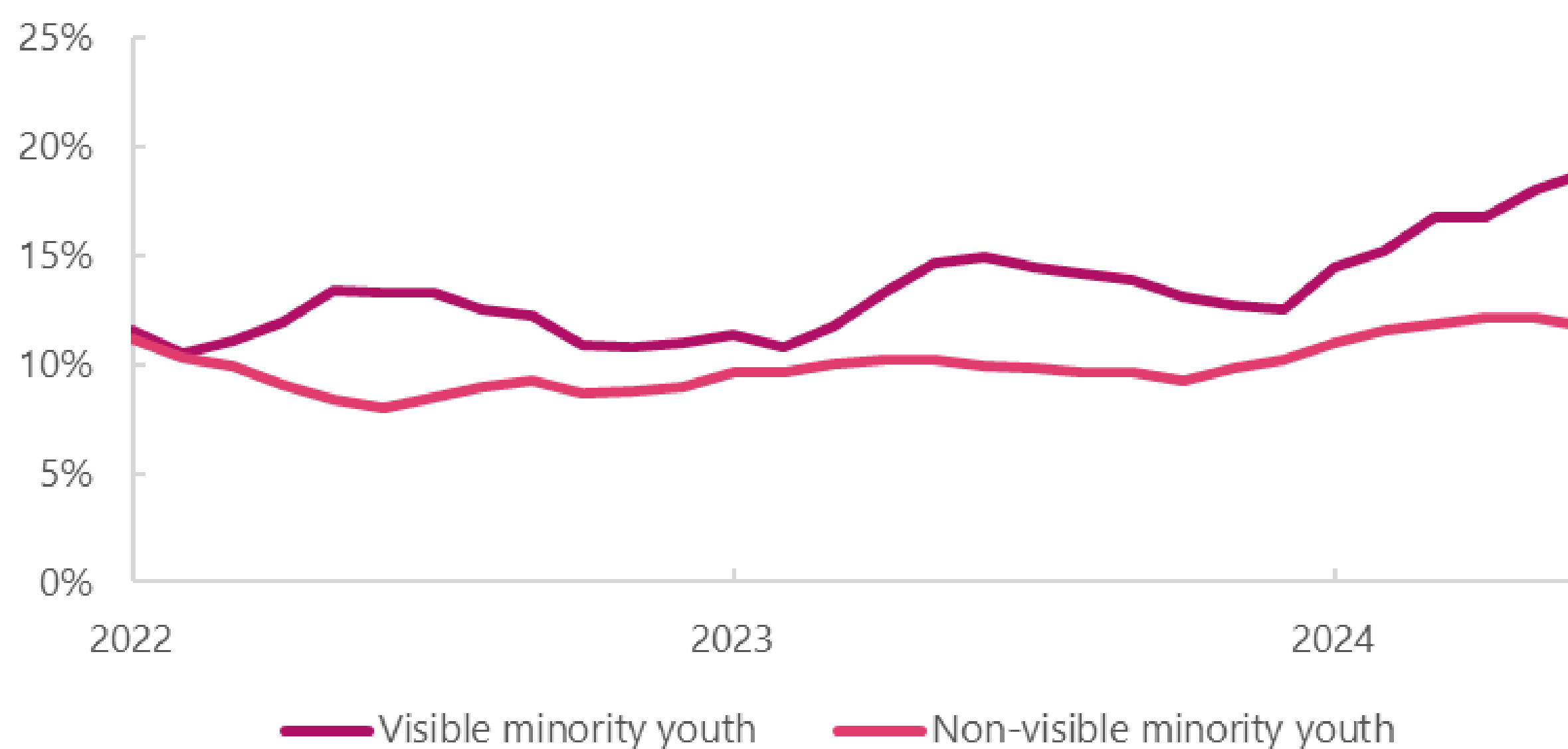
Although this gap typically narrows with time spent in Canada, it persists even after 10 years. Employment rates also reveal a disparity, averaging a 10-point gap since 2006, though narrowing to 4.7 points by 2023. However, recent data suggests a possible widening trend. Immigrant youth also risk underemployment due to difficulties in recognizing international credentials, which prevents full utilization of their skills, thus underutilizing valuable talent in the workforce.

Labour force participation rate, visible minority youth vs non-visible minority youth



Visible minority youth in Canada, including South Asian, Chinese, and Black individuals, face notably higher unemployment rates compared to non-visible minorities. Despite racialized youth often achieving higher levels of education, they experience disparities in job quality, pay, and benefits post-graduation. The Labour Force Survey, tracking racialized youth since 2022, reveals a 10.5% gap in labour force participation rates, with visible minority youth averaging 58% compared to 68.5% for non-visible minorities.

Unemployment rate, visible minority youth vs non-visible minority youth



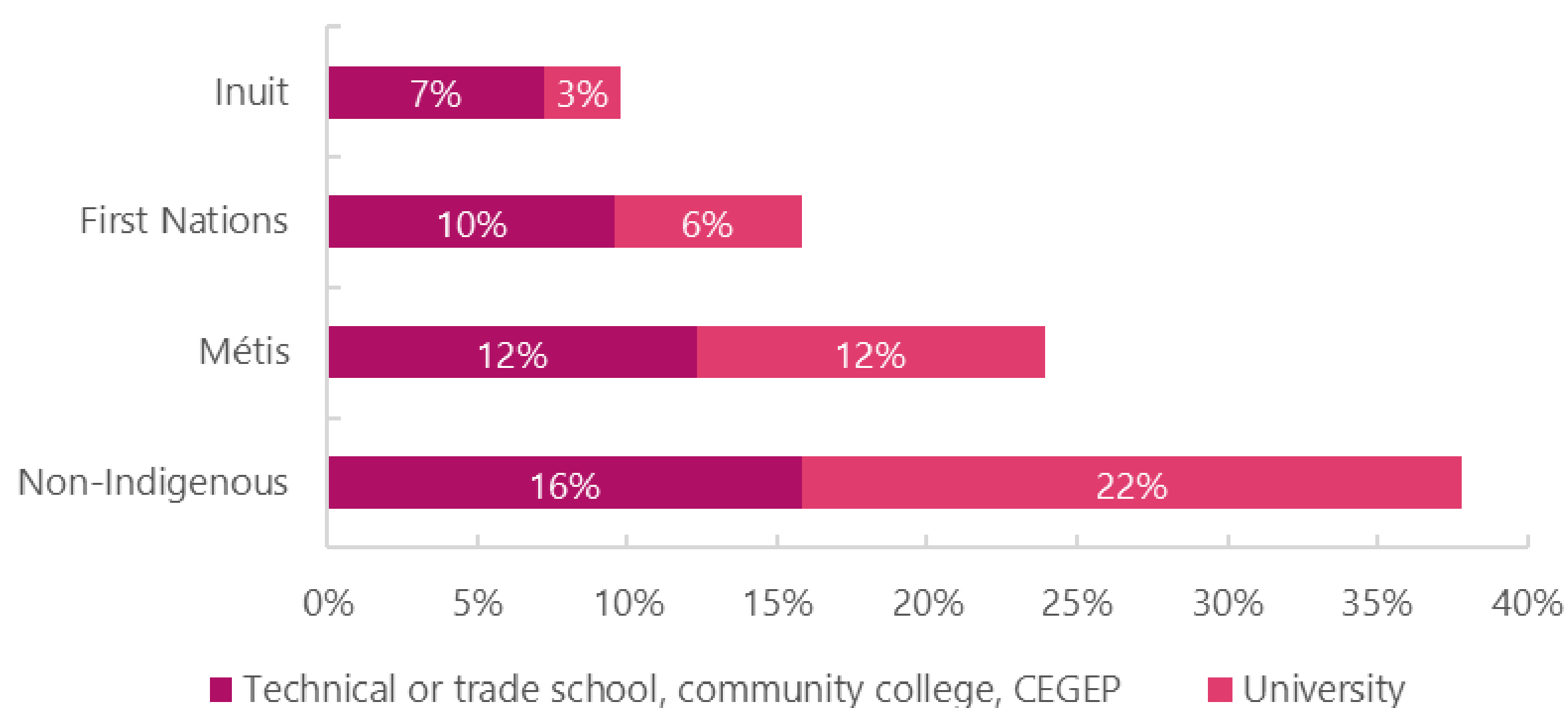
From 2022 to 2023, unemployment for visible minority youth averaged 13.4%, compared to 10% for others. This gap has since widened, with August 2024 data showing an 18.8% unemployment rate for visible minority youth—59% higher than that of non-visible minority youth at 11.8%. This growing disparity not only undermines inclusivity goals but risks further social exclusion and marginalization for racialized youth.

Unemployment rate, Indigenous youth vs Non-Indigenous youth



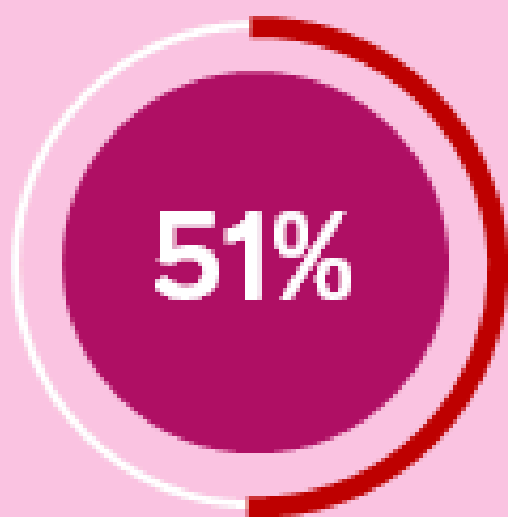
Indigenous youth, the fastest growing and youngest demographic in Canada, face significant employment challenges, with unemployment rates historically higher than those of non-Indigenous youth. From 2007 to 2019, Indigenous youth unemployment averaged 18.5%, compared to 12.5% for non-Indigenous youth. Education gaps, particularly in post-secondary attendance, contribute to this disparity.

Proportion of Indigenous youth attending post-secondary education



Although Indigenous youth unemployment has narrowed post-pandemic—averaging 16.3% in 2024 compared to 12.6% for non-Indigenous youth—gaps in employment outcomes remain. Public policy can help address these differences by expanding opportunities for employment and economic advancement in Indigenous communities, which is essential for closing the wealth gap and achieving economic equality.

Youth with disabilities in Canada face substantial barriers to employment, reflected in a 2023 employment rate of just 51%—the lowest among marginalized groups. The prevalence of disabilities among youth has also sharply risen, increasing by 7 percentage points between 2017 and 2022 to 20.1%.



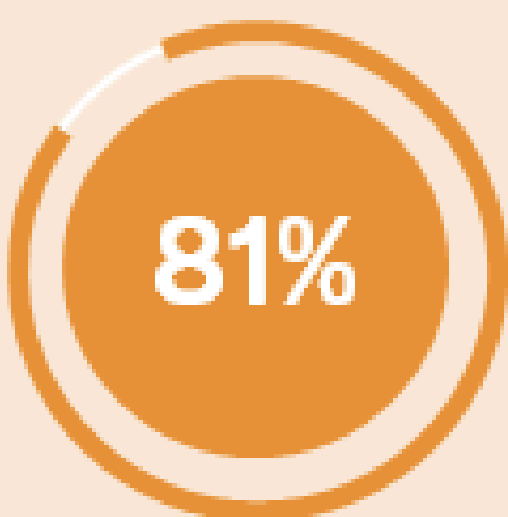
Employment rate for youth with disabilities



Youth disability rate in 2022, an increase from 13.1% in 2017

141,980

Number of NEET youth with disabilities in 2022



NEET youth with disabilities who have the potential to work if the labour market were to become more inclusive and accessible

Economic impacts
Private costs

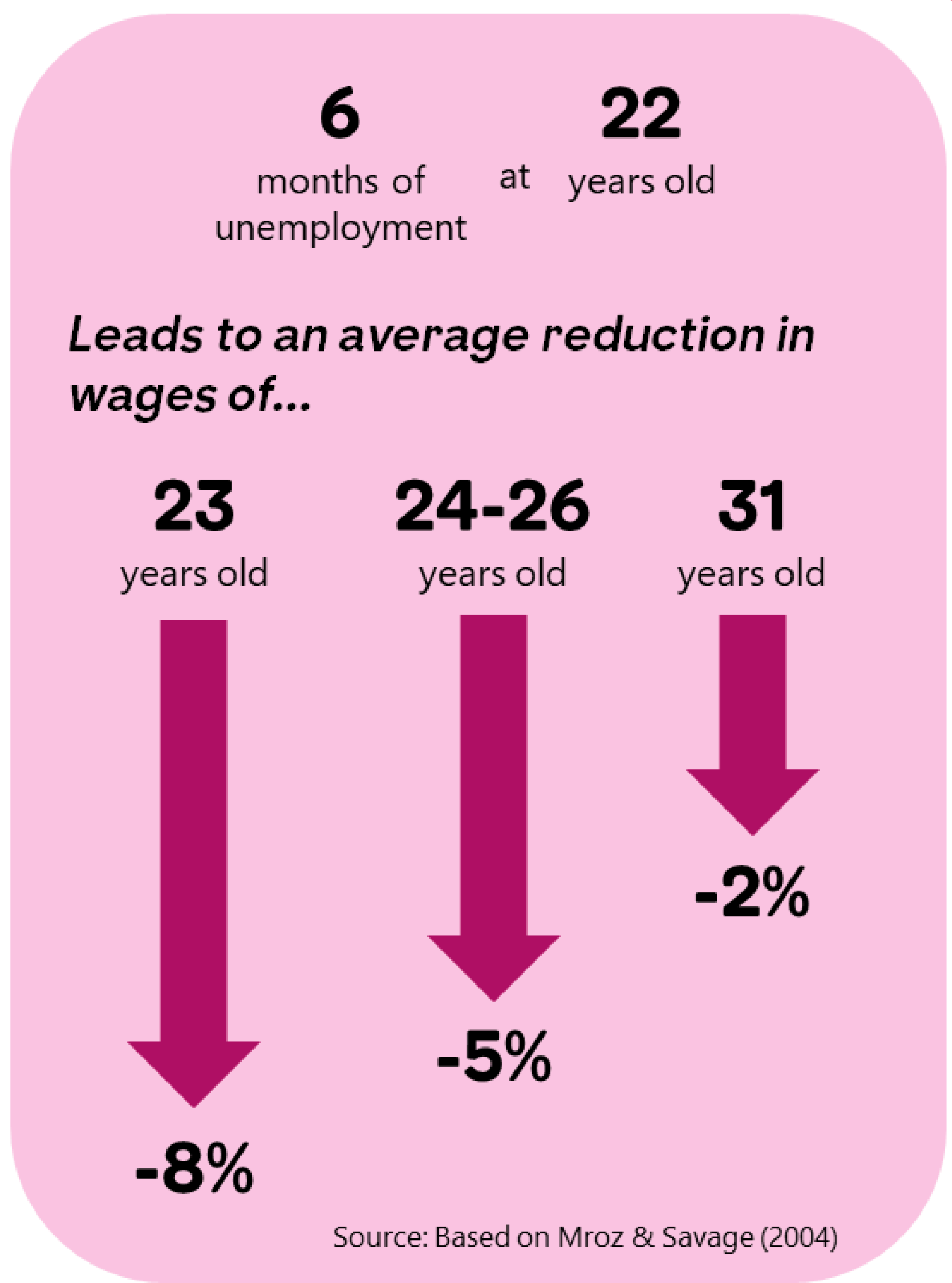
- Wage scarring
- Lower reemployment wages
- Declining income and consumption
- Declining human and social capital
- Lower future labour market attachment

Economic impacts
Public costs

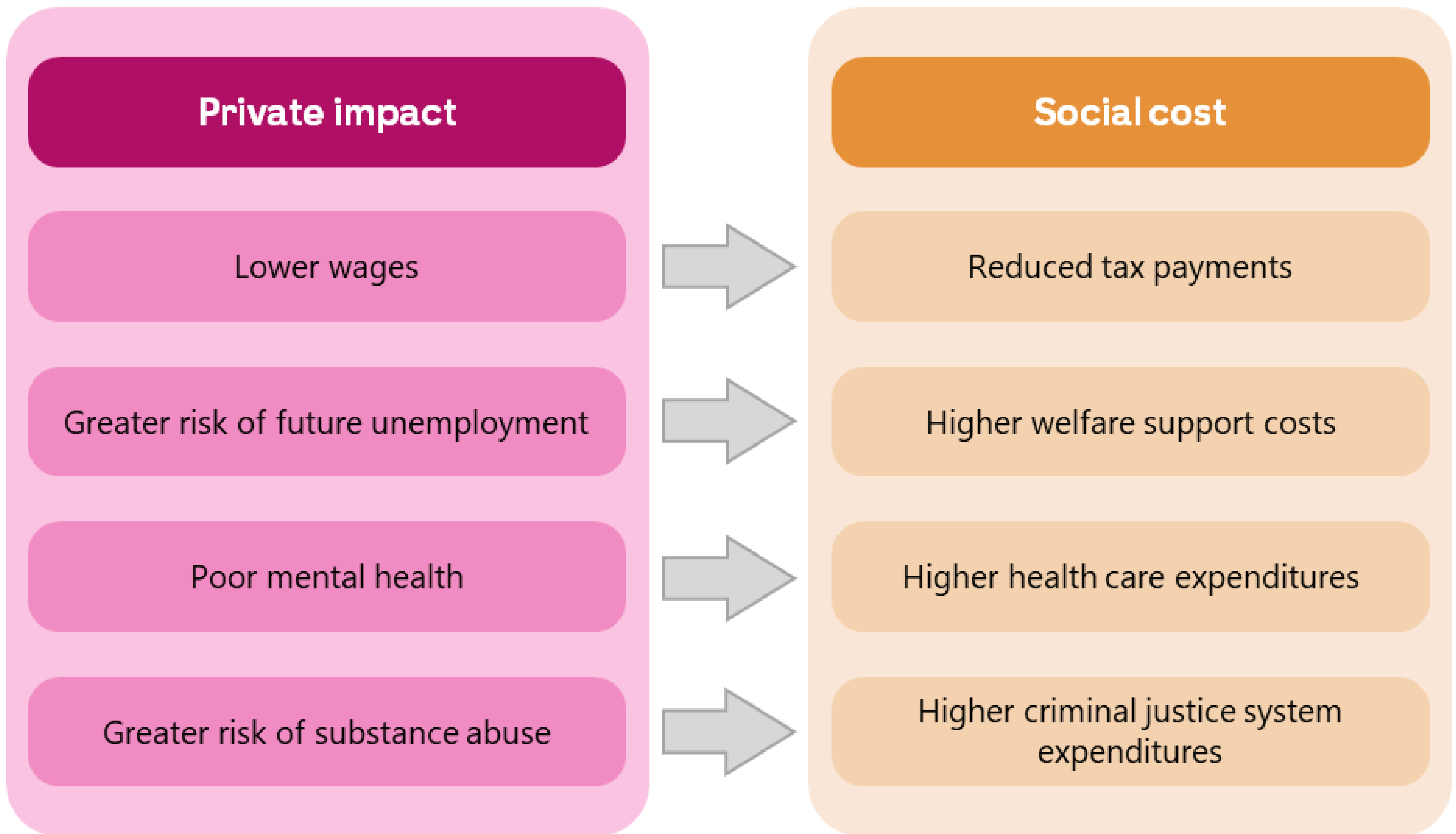
- Lower tax payments
- Higher criminal justice system expenditures
- Health care and welfare support costs

Social impacts

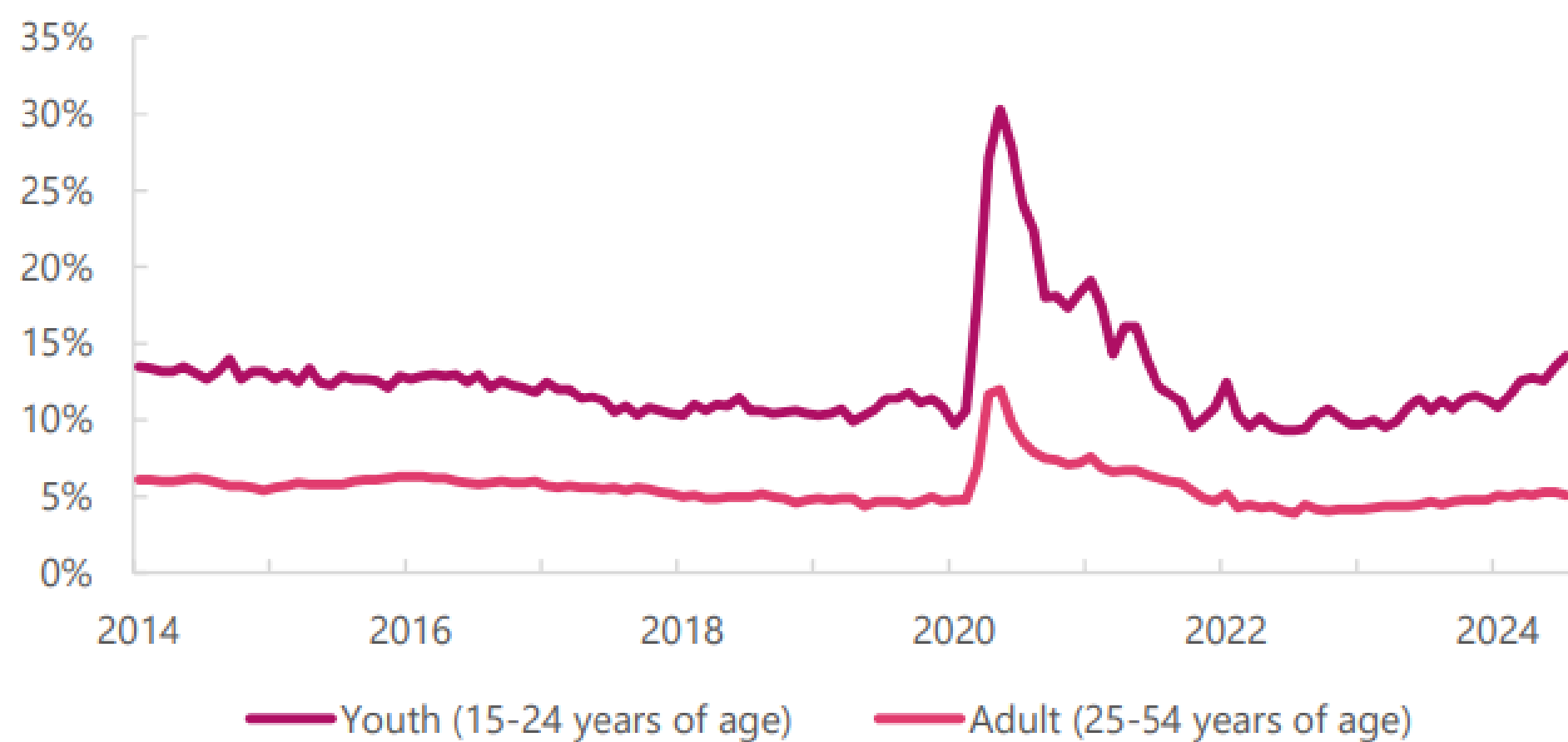
- Poor mental health outcomes
- Reduced life satisfaction and quality of life
- Increased risk of alcohol and illicit substance abuse
- Increased risk of involvement in crime



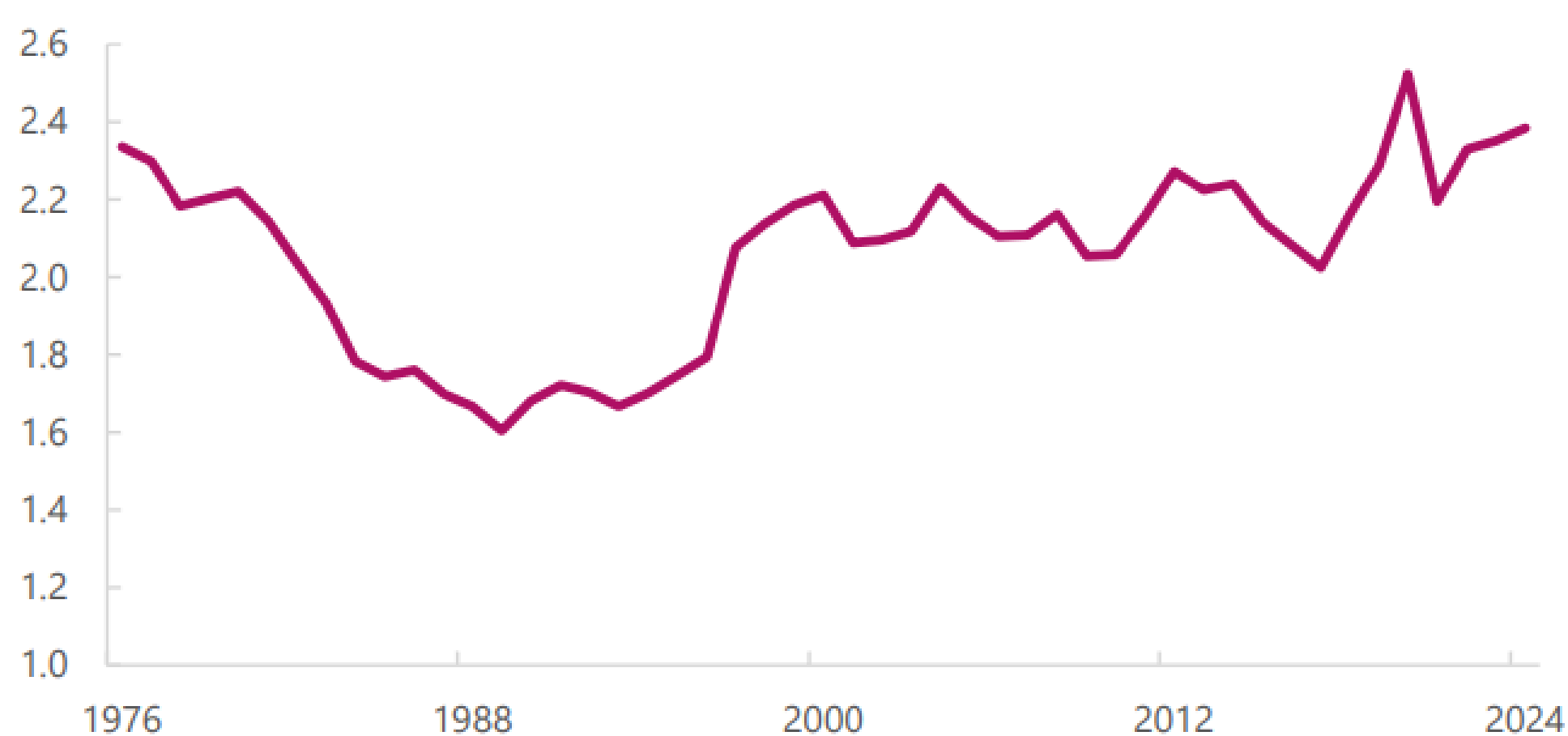
Research over the last thirty years shows that early career unemployment can lead to long-lasting negative effects on future earnings. Missing out on work experience and skill development delays the accumulation of "human and social capital," which is essential for wage growth. For instance, a six-month unemployment spell at age 22 may lead to an 8% wage reduction at age 23, which can still affect wages into one's 30s. UK studies show that a year of youth unemployment can reduce wages by 9-11% by age 42, and even more if additional unemployment occurs. For vulnerable groups, such as Indigenous or disabled youth, these effects can be more severe, compounding economic damages. Youth unemployment also increases the risk of future unemployment, with studies indicating a 5-percentage-point higher chance of future joblessness. Even underemployment and part-time work can harm long-term wages, with wage reductions lasting up to a decade after transitioning to full-time employment.



Impact of youth unemployment on GDP (\$Billions)



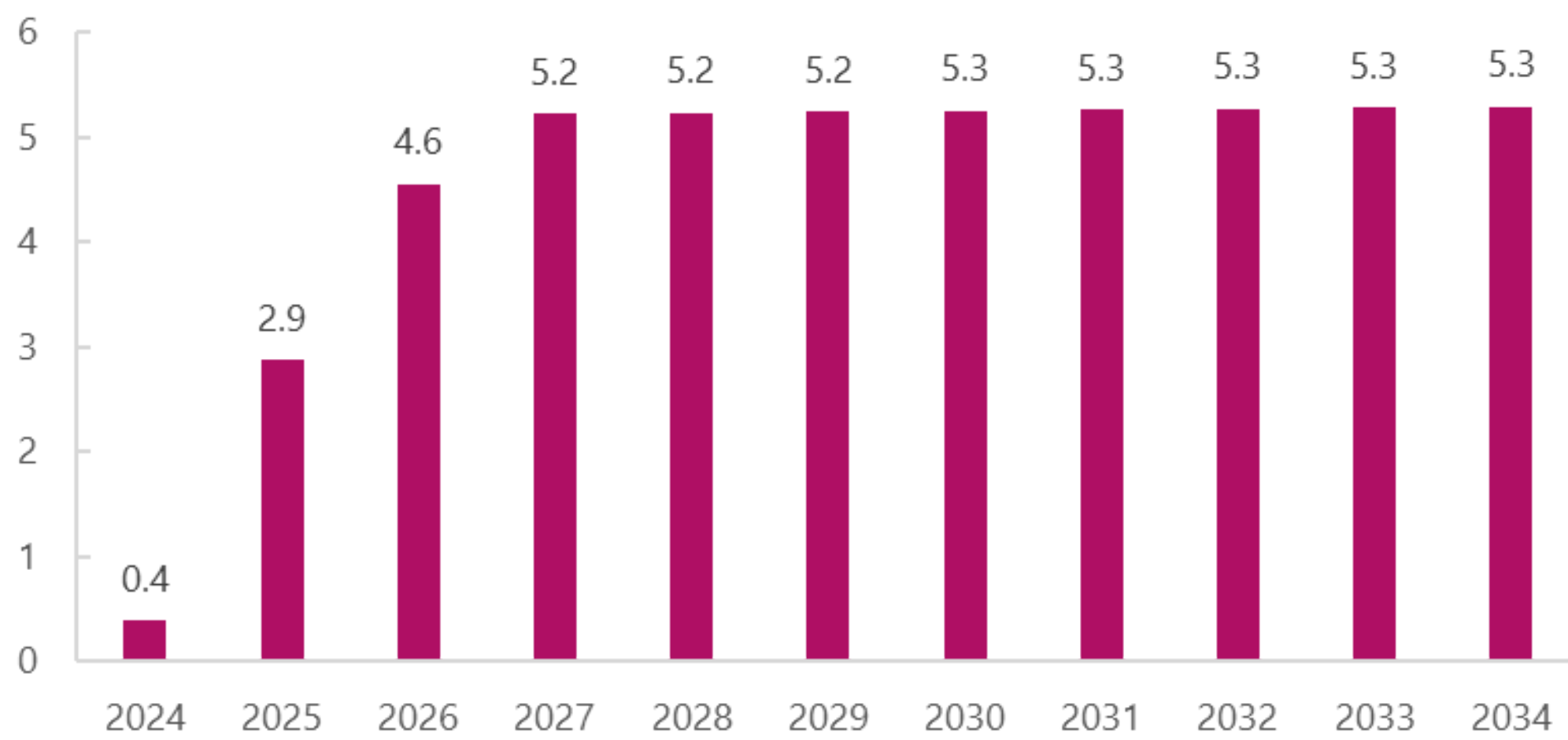
Project impact on aggregate employment (thousands)



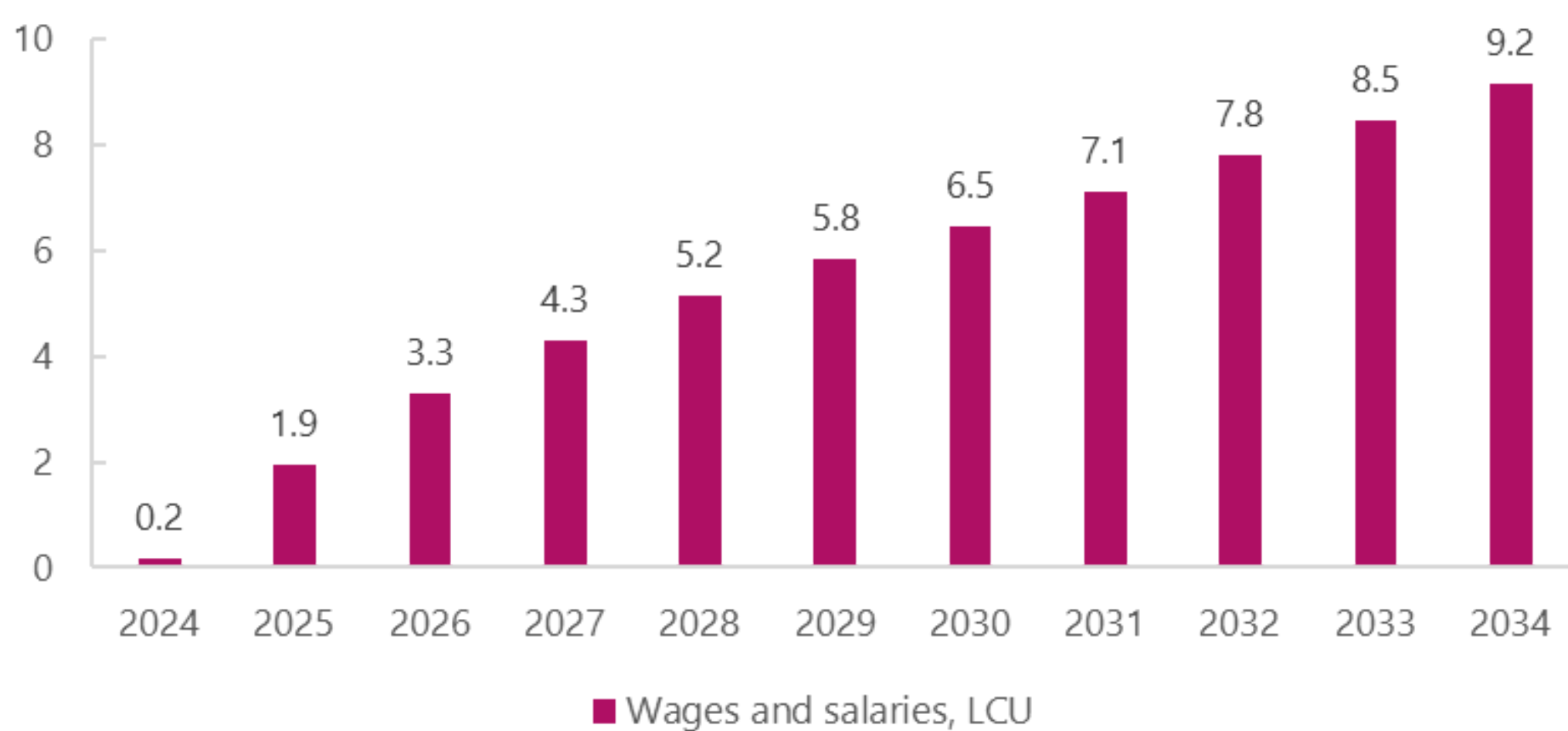
In a hypothetical scenario, four key adjustments to Canada’s economic model are proposed to address youth underemployment and unemployment:

- 1) Encouraging youth currently out of the labor force due to economic reasons to rejoin,
- 2) Transitioning involuntary part-time workers aged 15-24 to full-time roles,
- 3) Aligning the natural unemployment rate of young workers with the broader population, and
- 4) Increasing productivity through work experience and on-the-job training. These adjustments, modeled as supply-side “shocks,” aim to restructure the youth labor market. The projected impacts on GDP and employment show significant economic gains through increased workforce participation, reduced unemployment, and higher productivity, with the full benefits unfolding over time as the economy adjusts.

Impact of youth unemployment on government revenue (\$Billions)

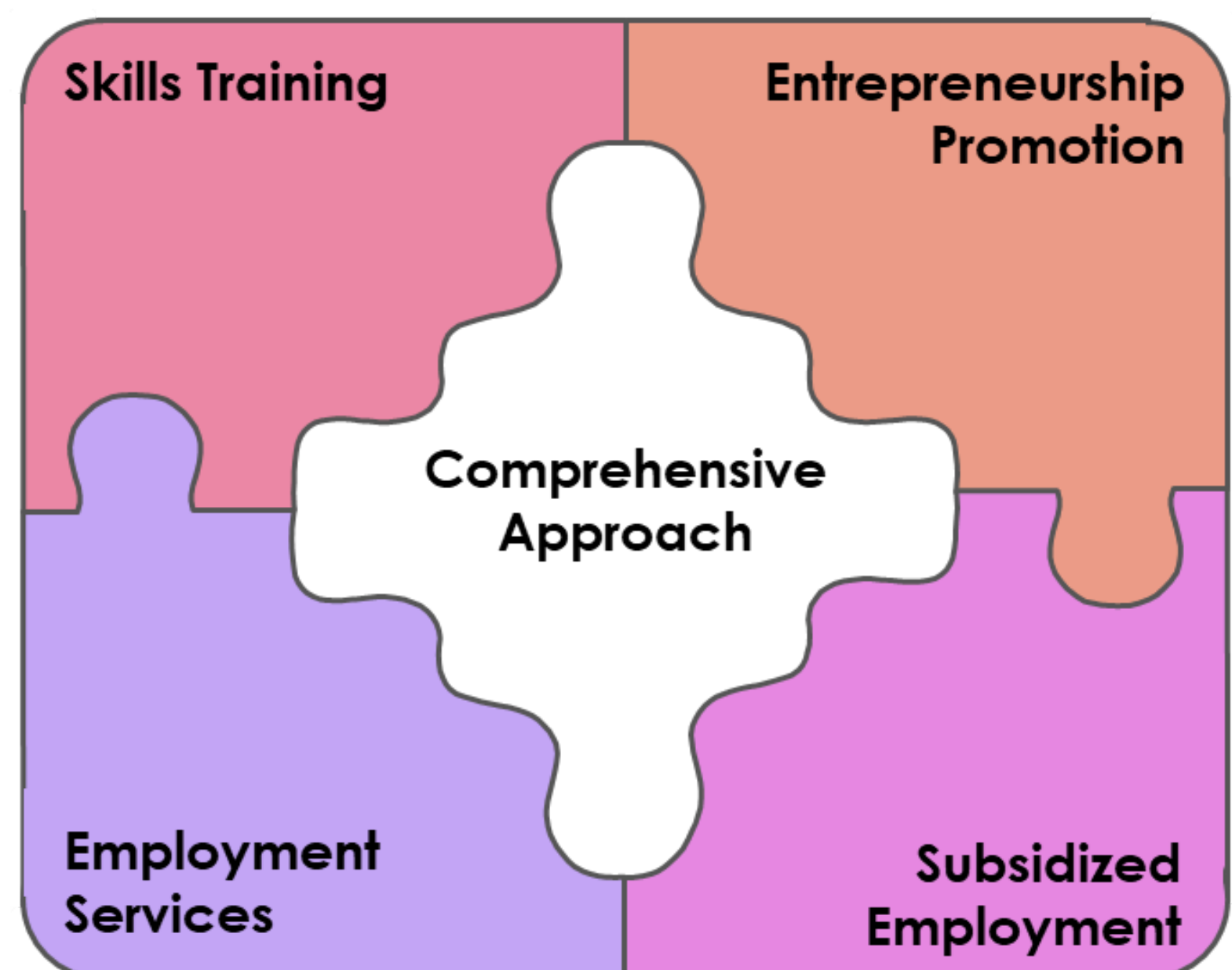


Impact on aggregate wages and salaries (\$Billions)



Canadian Example

Within Canada there are several organizations that offer solutions to help prevent or alleviate the ill-effects of youth under and unemployment. For instance, The King's Trust Canada operates various programs that provide foundational skills training, mentorship, work experience, and professional networks in order to help youth start their careers. The organization partners with employers and community organizations to provide these free skill-building and mentorship programs.



Reducing youth underemployment and unemployment in Canada could lead to significant economic gains by 2034.

The increase in the labor force would raise overall income, consumption, and real GDP by \$18.5 billion, a 0.63% increase, with employment growing by 228,000, or 0.99%.

This would raise the annual GDP growth rate from 1.98% to 2.04%, and employment growth from 1.18% to 1.27%. Additionally, government revenue would rise by 0.3%, or \$5.3 billion, and wages and salaries would increase by \$9.2 billion (0.46%).

These changes would also raise the compound annual growth rates of government revenue (from 3.39% to 3.42%) and wages (from 4% to 4.04%). These projected outcomes highlight the significant economic opportunity that could be realized by addressing youth underemployment and unemployment.

Five Key Policy Recommendations to Tackle Canada's Youth Unemployment Crisis

1. Modernize Employment Policies for the 21st-Century Workforce:

- The government must comprehensively revamp its employment policies and programs to account for the changing nature of work. This includes modernizing Employment Insurance (EI) to incorporate the realities of part-time and contract work, including flexible hours and varying income streams, and addressing the specific challenges faced by gig workers. Furthermore, proactive measures are needed to support workers facing displacement due to automation and AI.

2. Incentivize Youth Hiring Through Targeted Tax Rebates:

- Enhance targeted tax rebate programs for employers who hire young people. This incentive should be designed to encourage employers to provide young people with valuable work experience and training opportunities, particularly focusing on businesses that traditionally hire a significant portion of young workers and might be more hesitant to hire those without prior experience. The rebate could be tiered, offering higher incentives for hiring youth from marginalized groups.

3. Implement a 'Youth Lens' Across All Government Policies:

To ensure that young people's needs and perspectives are integrated into all aspects of policymaking, The King's Trust Canada recommends:

- The government should adopt a "youth lens" approach, like the successful implementation of the GBA+ the federal government adopted, systematically integrating the specific needs and perspectives of young people into all policy development and program design across all government departments. This "youth lens" must address the unique barriers faced by marginalized groups and ensure that policies promote equity, opportunity, and meaningful inclusion for all young Canadians.

4. Invest in Youth Skills Development and Risk Mitigation:

To better equip young people with the skills and support they need to thrive in the workforce, The King's Trust Canada recommends:

- The government should fund organizations that close the gap between education and employers and provide critical skills training, mentorship, and support programs to young people, particularly those who face barriers to employment.

5. Prioritize Data Collection on Youth Underemployment:

The current data on youth underemployment is inadequate, hindering effective policy development and evaluation. The King's Trust Canada recommends:

- The government should prioritize the collection of high-quality, disaggregated data on youth underemployment. This data must provide comprehensive insights into the experiences of young people in various employment situations and across different demographic groups (e.g., Indigenous youth, racialized youth, youth with disabilities, and newcomers), accounting for the rise of non-standard work arrangements. This crucial information will inform the design and implementation of effective policies to mitigate underemployment and promote sustained employment among all young Canadians.



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