

Project Insights Report

Long-Term Labour Market Scarring on Youth from Economic Shocks



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Executive Summary

Regardless of labour market conditions, some young people have a hard time transitioning into the labour market and are not working or training for extended periods of time. During an economic shock like a recession, challenges are heightened. Young people are graduating into a recession and lower-quality work with lower pay, which leads to “labour market scarring” – long-term negative impacts on their earnings and career opportunities over time.

Scarring can be driven by a range of individual or economic circumstances, but it happens far more frequently after economic downturns.

Young people today are facing the lasting effects of the pandemic while grappling with challenges like the cost of living, the housing crisis, and accelerating climate impacts. For those reasons, it is important to think about policy responses that will help dampen the scars associated with the pandemic and mitigate future scarring. This will help to support young people today and in future generations to participate fully in a thriving economy, benefiting all Canadians.

KEY INSIGHTS

1

In 2021, Canada’s rate of youth who are not in employment, education or training, reached its highest level in over a decade.

2

A 1% increase in the provincial youth unemployment rate during the year of graduation is associated with a 0.7% decline in earnings for five years after graduation.

3

Young women and racialized youth were most likely to have resume gaps during the pandemic and they may face further discrimination as they apply for job opportunities in the future, widening the equity gap.

▶ The Issue

A major economic downturn can considerably damage people's lives. For some, this pain is short-lived, but for others there is a strong risk of lasting harm. Young people, and especially recent graduates, experience distinct challenges during and after downturns that can stay with them over the long-term.

The immediate effects of economic shocks like recessions include job losses, and reduced hours and wages for young people. Over time, those short-term consequences compound, leaving a lasting impact on career earnings, job opportunities, labour market attachment, and career progression. These lasting consequences, known as "labour market scarring", can have significant downstream effects on young people's well-being, economic inclusion, and capacity to build economic security and wealth.

Research from Canada and peer countries makes two things clear: many young people experience long-term economic scarring after economic shocks; and that pain is felt disproportionately by young people who already faced barriers to successful entry into the workforce. But when shocks occur, whether those are recessions, pandemics, or changes in particular sectors (such as the energy sector), dealing with the short-term impacts tends to be of primary concern to policymakers. Job losses are easy to see and often demand a policy response, but the longer-term impacts — including on those who do not yet have a job to lose — can be even more consequential, even if they are less visible.



What We Investigated

This project focused on the impacts of economic shocks on young people and the economy. It drew insights from the outcomes of past shocks to inform how we might address the scarring effects of COVID-19 and respond to shocks in the future.

In particular, the project provided examples of the pandemic's unique and less predictable scarring effects on young people, including the impact of social distancing and shifts to online work or school, and how policies and programs can be designed to adapt to such unpredictable shifts in the labour market.

The policy and program recommendations were developed from a literature review and jurisdictional scan to highlight existing policy gaps, and by a facilitated workshop discussion with experts.

What We're Learning

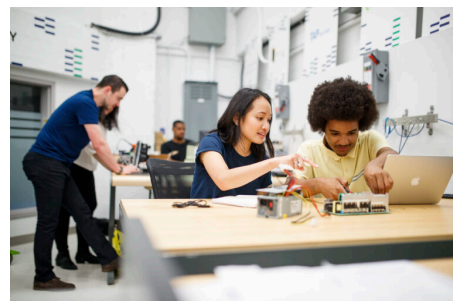
There are crucial policy gaps on the lasting impacts of economic shocks on young people and, in particular, how they manifest for youth facing multiple additional barriers. These include:

- Limited support available for young people undergoing career transitions.
- Young people experiencing challenges navigating the evolving training marketplace.
- Lack of access for young people to opportunities to build networks.
- Loss of access to mental health services when young people are unemployed and out of school.
- Outdated career services and training programs

Why It Matters

Governments are aware of these challenges and have taken some steps to address them through efforts like expansions to the [Student Work Placement Program](#) and funding for the [Canadian Apprenticeship Strategy](#). Some larger organizations are also aware of these challenges and have taken steps to support networking and entry-level work for young people.

But these efforts have not been enough to prevent the scars that have hurt Canada's prosperity and deepened inequities. Governments, employers, and community organizations should implement policies and programs that minimize the risk of scarring from the pandemic and from future economic shocks — an aging population makes it even more urgent to ensure all young people are supported to reach their full potential.



**State of Skills:
Enhancing Career Prospects and
Well-Being for Canadian Youth**

To mitigate the harm of long-term labour market scarring on youth, Canada needs responses from all levels of government, employers, and the community. We need a mix of policy tools that cut across the economic cycle so that people aren't left behind. That includes policies focused on:

Focus on early career guidance programs to introduce youth to a range of career paths, empowering them to make informed decisions with a strong emphasis on inclusivity and accessibility.

Read Thematic Report

Funding long-term evidence generation and infrastructure to measure the impact of programs and design policies for future economic shocks

Build a stronger evidence base around labour market scarring across different demographics. Design programs that fund evidence generation and innovation, and reward long-term outcomes.

Bridging the opportunity gap through skills development and social capital

Encourage employers and other organizations to create opportunities for youth to network, job shadow, connect with mentors, and build their social capital. Scale employer-sponsored training models to promote soft-skill development in young people entering the workforce.

Supporting a smooth transition into the workforce to reduce the risk of long stretches outside work or education

Create more opportunities for students to gain work exposure and relevant work experience while studying in secondary and post-secondary education. Ensure young people do not lose access to mental health services after they graduate.

Expanding access to career support services to navigate shifts in the labour market, the structure of the economy, and in-demand skills

Offer career guidance for people in all phases of their professional lives by expanding the scope of existing employment services. Prepare career practitioners with new navigation tools and coaching so they can guide young people through the training marketplace and help them make informed decisions about their next learning program. Expand eligibility of training vouchers to include career guidance services. Expand and align eligibility requirements for public programs to ensure young people can access the career support they need.

Creating new opportunities for young people to engage in the labour market following economic shocks

Create new employment opportunities directly through public and civic engagement. Prevent job losses and resume gaps through time-limited and thoughtfully designed wage subsidies.

Have questions about our work? Do you need access to a report in English or French? Please contact communications@fsc-ccf.ca.

How to Cite This Report

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