

From: Derek Messacar, Marc Frenette and Tomasz Handler
To: Concerned Canadians
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Re: **THE COST OF GRADUATING DURING COVID-19**

Over the past year and a half, pandemic lockdowns have led to significant declines in economic activity across Canada and the effects have been particularly severe for young workers. The unemployment rate among 15 to 24 year olds increased from only 10 percent in February 2020 to nearly 30 percent just three months later.

It is well documented that adverse labour market entry conditions result in lower lifetime earnings, poorer health and lower life expectancy compared to graduating when labour market conditions are strong.

Graduating during this pandemic poses unique challenges for finding a job and transitioning out of student life for many young people who are completing high school, college and university programs and preparing to start their careers.

We wanted to know how much earnings a typical graduate from the 2021 cohort could expect to lose in the first few years of their careers from the bad luck of graduating during COVID-19. Assuming previous recessions are informative about the effects of the current one, the high unemployment among young workers suggests that these losses will be large and persistent.

In our recent [study](#), we estimated the effect of graduating in a recession and then predicted earnings losses for the 2021 cohort under several plausible labour market scenarios.

We used Statistics Canada's Census of Population data from 1986 to 2016 to estimate how labour market entry conditions affect earnings. These data allow us to determine when a person graduated from school, their highest level of educational attainment and their annual earnings around the time the survey was conducted. In addition, we complement our analysis with annual Labour Force Survey data to estimate regional unemployment rates that prevailed for each survey respondent around the time they graduated.

We find that a 1 percentage point increase in the unemployment rate decreases annual earnings by about 2 to 4 percent during the first few years after graduation. This effect occurs both because individuals take longer to find a job and because they accept jobs that pay less than they would have earned in a tighter labour market. Moreover, earnings losses are larger for people with lower levels of education and for women compared to men.

Next, we collected unemployment rate forecasts for 2021 from Canada's six largest banks, the International Monetary Fund and the Organisation for Economic Cooperation and Development, all produced after the pandemic began and reflect the economic impacts of regional lockdowns.

We then used this information to forecast earnings losses for the 2021 cohort of high school, college and university graduates in the first five years after graduating. The unemployment rate forecasts vary from TD Bank's low of 7.3 percent to the OECD's high of 8.8 percent and all suggest unemployment will stay above its pre-pandemic rate. For comparison, the 2019 unemployment rate was just 5.7 percent.

On balance, we predict that graduates from the 2021 cohort should expect to lose about \$2,000 annually over the first five years. This corresponds to between 5 to 13 percent of their total labour market earnings during that time. As before, the earnings losses in percentage terms are larger for those with lower levels of education and for women compared to men.

As mentioned, a key assumption of our study is that previous recessions are informative about the current one. This pandemic is unique in creating remote workplaces and incentivizing firms to invest in automation and redesign their workplaces to promote physical distancing.

A recent Statistics Canada [study](#) shows that workers with higher levels of education generally have more job security in light of automation and lockdowns from pandemics compared to their less-educated counterparts. Thus, the effects of the pandemic on job prospects for young workers depend on their level of educational attainment. The long-term effects will become clearer as economic activity continues to increase.

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