



Untapped Potential: Canada needs to close its immigrant wage gap

When it comes to attracting immigrants, Canada is a success story. In August, the OECD called our labour migration system comprehensive and responsive—a global model for immigration management. That reputation hasn't only reached other governments. In a recent Gallup poll, 6% of potential immigrants named Canada as their top desired destination, more than Germany, France, and Australia, and second only to the U.S. Pretty good for a country of 37 million with a long winter.

While Canada is drawing in some of the best and brightest, especially due to an increased focus on highly skilled, educated immigrants, our success in integrating those newcomers into the labour force falls short, at least on one key measure: earnings. Even as the balance of immigrants has shifted towards those with more skills and education, immigrants aren't being fully rewarded by the labour market for the attributes that got them accepted in the first place. They earn around 10% less on average than Canadian-born peers.

The immigrant wage gap is broad-based. And it's persistent: it has widened over three decades. That's a red flag for a country that already has the highest proportion of immigrants to total population in the G7. Immigrants make up 22% of Canada's population now, a number that's expected to rise to 28% by 2036.

The immigrant wage gap is costly. Our research suggests bringing immigrants up to the wage levels and employment of those born in Canada would produce substantial economic benefits—maybe as much as 2.5% in annual GDP, about \$50 billion.

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Key Findings

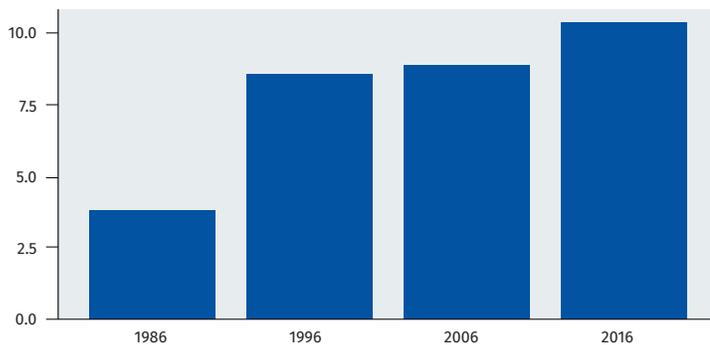
- Immigrants earn about 10% less than those born in Canada; 30 years ago the gap was less than 4%
- The immigrant earnings gap spans occupation, age, gender and region
- The immigrant earnings gap has worsened even as immigrants have become significantly more educated than the Canadian-born population
- The immigrant earnings gap for those with a university education aged 45-54 is about 18%
- Only 38% of university-educated immigrants aged 25-54 work in an occupation requiring a university degree, compared with 52% of those born in Canada
- Immigrants’ tendency to work in lower-paid occupations relative to their education only accounts for about 40% of the earnings gap
- The Canadian labour market appears to discount foreign labour market experience
- Bringing immigrants up to the wage and employment levels of those born in Canada has the potential to add \$50 billion to GDP

Better educated, but earning less

The fact that immigrants earn less than their Canadian-born counterparts isn’t new. What’s even more concerning is that the gap has gotten worse as we’ve increased our focus on so-called economic immigrants—those selected primarily for their potential economic contribution to the country, and the skills and education they bring. The gap in median earnings between the Canadian-born and those born elsewhere was 3.8% in 1986. By 2016, it had widened to 10.3%. The worsening occurred even though newcomers

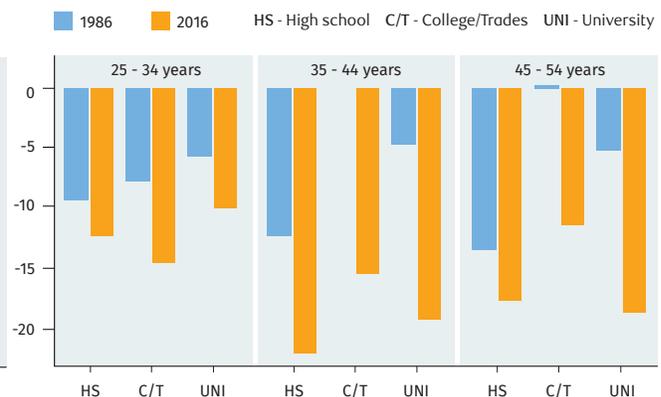
became more educated relative to previous immigrants and to the domestic-born population. More than a third of all adult immigrants held a bachelor’s degree or higher in 2016. Among those aged 25-54, it was 43%, compared with only 26% of those born in Canada. Despite all that education, immigrants continue to earn less. For the average immigrant aged 45-54 with a university degree, for instance, the earnings shortfall is around 18%.

Immigrants’ earnings shortfall has gotten worse over time
Median earnings gap (as a percentage of Canadian-born earnings)



Source: Statistics Canada, RBC Economics

The immigrant wage gap is broadly based
Gap in median earnings (in percent)



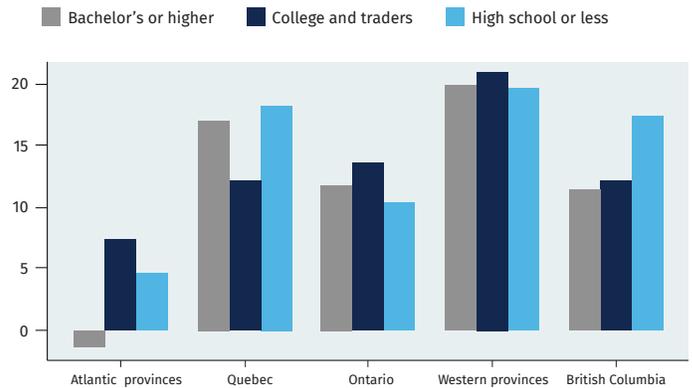
Source: Statistics Canada, RBC Economics

The gap is there no matter which way you slice the data

The immigrant earnings gap doesn't reflect occupational choice. With the exception of those working in the sciences, immigrants earn less no matter what kinds of jobs they do. The gap is present in occupational categories ranging from manufacturing (more than 20% on average) to management occupations (around 2%).

The immigrant earnings gap exists across Canada. But it's worse in some regions than others. This is especially evident in the western provinces of Alberta, Saskatchewan, and Manitoba, where immigrants' hourly wages are significantly lower regardless of educational attainment. The immigrant wage gap is narrowest in Canada's Atlantic provinces, possibly due to efforts to attract a younger workforce. In March, the federal government announced a two-year extension of the Atlantic Immigration Pilot to make it easier to hire skilled labour and recent graduates to fill local vacancies. Programs, like this one, that link employment to immigration from the beginning, may be a path towards faster integration and helping immigrants attain greater wage parity.

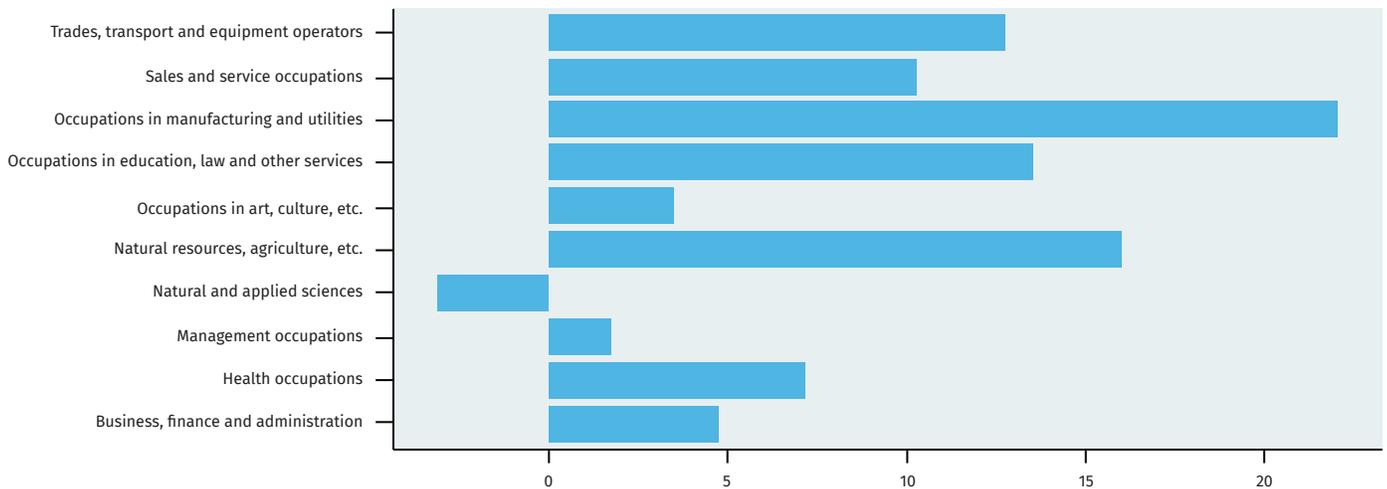
Regardless where they settle, immigrants earn less
Hourly wage gap (as a percentage of Canadian-born wages)



Source: Statistics Canada, RBC Economics

The immigrant earnings gap is true for both men and women, sitting at about 10% for both. Both immigrant men and women have seen their earnings slip relative to Canadian-born since 1986. Immigrant men saw the gap increase from essentially zero to 10% over this time.

Immigrants tend to earn less regardless of what they do
Hourly wage gap (as a percentage of Canadian-born wages)



Source: Statistics Canada, RBC Economics

The experience gap

Some of the earnings gap stems from immigrants having difficulty finding work in their field, or having to completely restart their careers upon arrival in Canada. We know, for instance, that immigrants tend to work in occupations that don't require the level of education or experience they achieved before arriving: only 38% of university-educated immigrants aged 25-54 work in an occupation that requires a university degree. That compares with 52% of Canadian-born people in the same cohort. Immigration, Refugees and Citizenship Canada's non-refugee survey notes that 64% of immigrants find it difficult or very difficult to find a job that matches their skills and education. That points to the persistence of the longstanding problem of Canada not recognizing immigrants' professional or educational credentials.

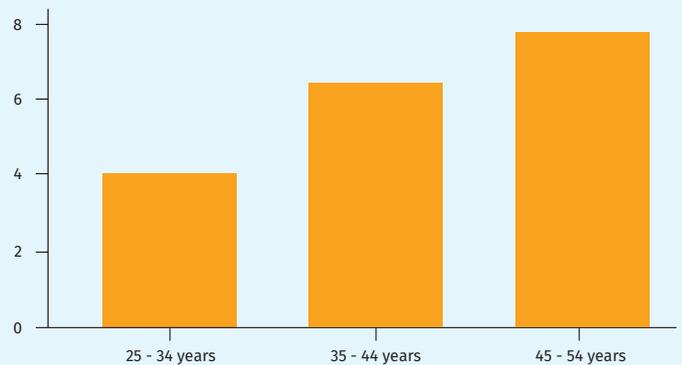
Our research suggests that immigrants' relative tendency to work in lower-paid occupations relative to their education accounts for about 40% of the earnings gap. But even immigrants who find employment within their chosen occupation tend to earn substantially less than their Canadian peers. That suggests recognizing non-Canadian work experience, and not just credentials, is a factor.



Those who come to Canada as children don't earn less

Bucking the trend are those who came to Canada before their 16th birthday. Instead of seeing gaps, they tend to do as well or even better than their Canadian born counterparts, with prime-aged individuals even earning a premium of about 5%. This difference as compared with those who immigrated to Canada in their adult ages adds weight to the view that a root cause of the immigrant wage gap is a lack of time spent in the Canadian labour market.

Those who come to Canada as children are treated fairly on wages
Median earnings premium (as a percentage of Canadian-born earnings)



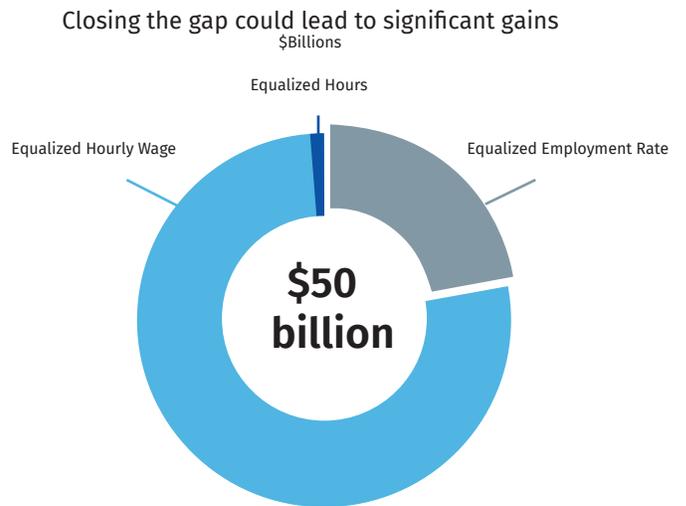
Source: Statistics Canada, RBC Economics

Failing to address the earnings gap may be costing Canada \$50 billion, or 2.5% of GDP

The immigrant wage gap isn't just a problem for immigrants. It has a broader economic impact, in terms of not capturing the benefits of Canada's more-educated, immigrant-rich workforce. How much of an impact? Up to \$50 billion, according to our calculations. That figure reflects the estimated overall cost of immigrants not being able to find work in their field, or not reaching wage parity even if employed in the field of one's choice. Given current federal plans for an increase in immigration levels, the cost is worth bearing in mind.

Recent federal efforts to select those immigrants most likely to succeed in the labour market include the Express Entry program introduced in 2015, expanded use of the Provincial Nominee program, and expanded pre- and post-settlement services. While we still don't know if they have narrowed the wage gap, they have narrowed the employment gap,

bringing immigrants' participation in the labour market almost to the level of the Canadian-born. We believe that's an important first step.



Source: Statistics Canada, RBC Economics

A path forward

- We should improve our tracking of immigrants' journey through the labour market to better understand why immigrant wages continue to fall short.
- We should help Canadian employers better assess foreign work experience.
- The government should consider devoting more resources to helping immigrants transition into the labour force after they arrive.
- What can we learn from Atlantic Canada's relatively narrow immigrant wage gap, and can we replicate that across the country?

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