



The Expansion of Two-step Selection and Immigrant Labour Market Outcomes in Canada

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Presentation for the Pathways to Prosperity 2020 National Conference
November 23, 2020



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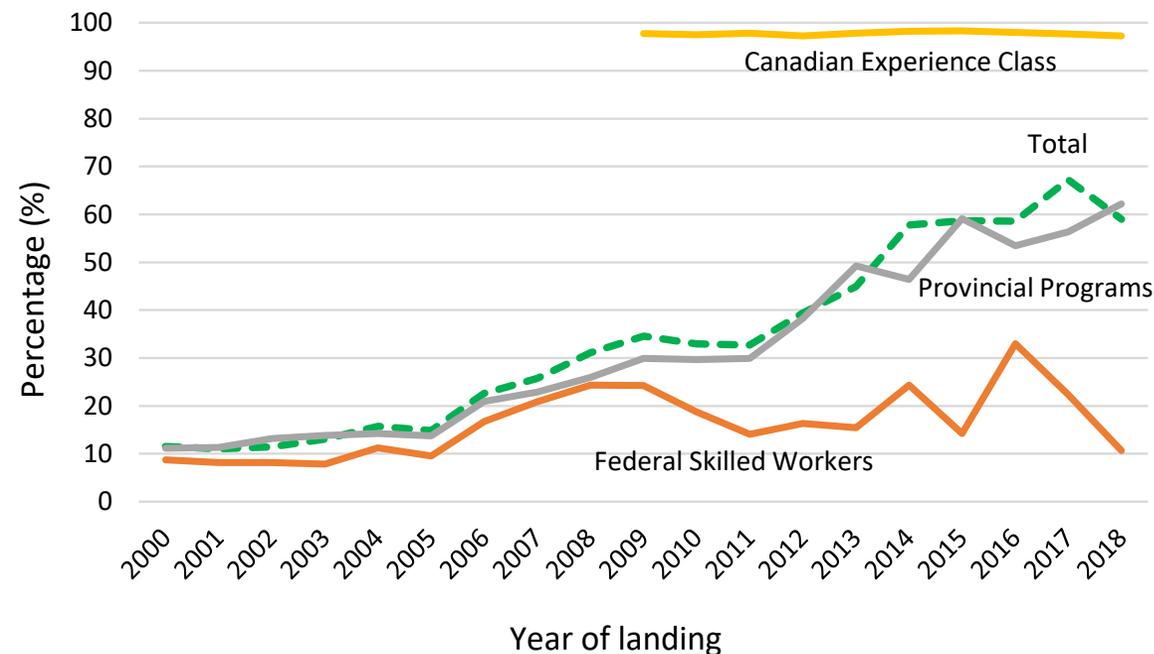
Purpose of presentation

- To examine and document some key aspects of two-step immigration selection.
- To explore the links between two-step immigration and the labour market outcomes of immigrants, paying attention to admission category.
- To discuss the benefits and potential challenges associated with two-step immigration selection, as well as consider factors for continued success of two-step immigration.

Two-step immigration selection has expanded rapidly in Canada

- In **two-step immigration selection** temporary foreign residents are first selected by Canadian **employers** for a job (as a Temporary Foreign Worker (TFW)) or by Canadian **educational institutions** to study (as an International Student), and those qualified among them are subsequently selected by the government to become economic permanent residents based on a set of standard criteria.
- In the US, employers typically sponsor temporary foreign workers' application for permanent residency. In Canada, the government mostly determines the temporary to permanent resident transition, although employers play a large role in some Provincial Nominee Programs (PNPs).
- **In 2018, 59% of economic principal applicants had pre-immigration Canadian earnings, up from 12% in 2000.**

The share (%) with pre-immigration Canadian earnings among economic principal applicants aged 18 years or older at landing(2000-2018 landing cohorts)



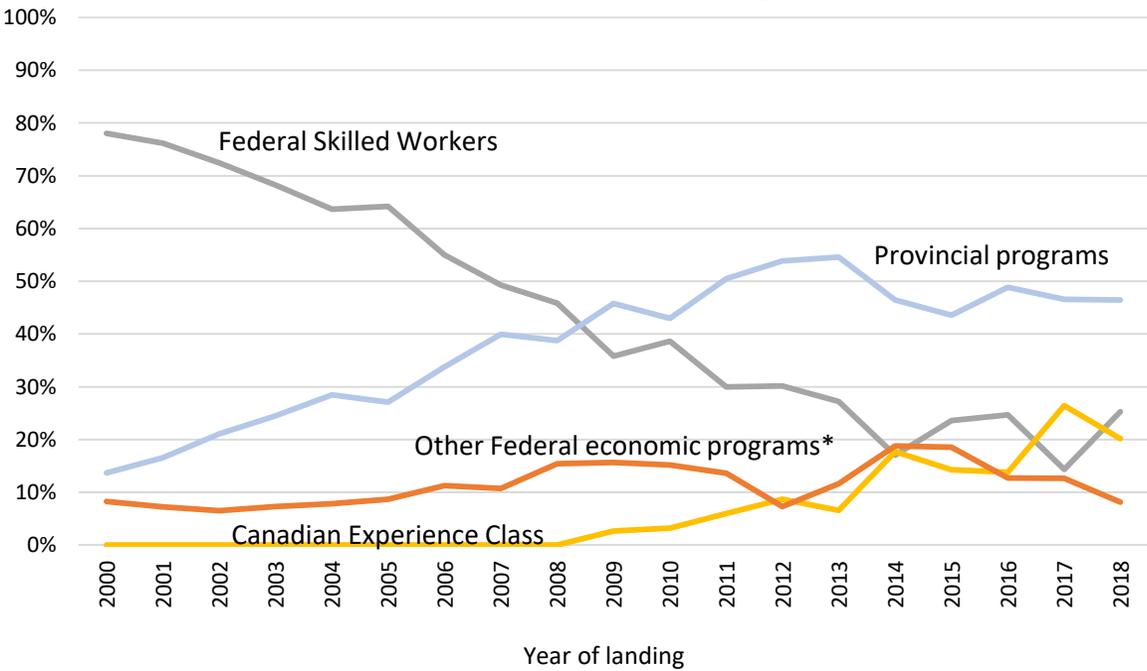
Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020a. "Increasing selection of immigrants from among temporary foreign workers in Canada." Statistics Canada, *The Daily*. Catalogue no. 11-626-X.

The expansion of two-step selection has been propelled by the rising number of TFWs and their increased transition to permanent residency

- **Drivers of two-step immigration selection expansion:**
 - Over the 2000 to 2018 period, the **number of TFWs** (those who held work permits) in Canada went up from roughly 60,000 to 420,000 individuals on a yearly basis.
 - The five-year accumulative **rate of transition** to permanent residence (i.e. share of TFWs who obtained permanent residency status by the 5th year after initial arrival) among TFWs increased from 9% for the 1995-1999 arrival cohort, to 14% for the 2000-2004 cohort, and to 22% for the 2005-2009 cohort.¹
 - The **expansion of provincial programs** and their increased reliance on temporary foreign workers.
 - The introduction of **Canadian Experience Class** in 2008.

1. This rate of transition is based on those TFWs whose first-ever permit in Canada was a work permit and it does not include, for example, those whose first-ever permit was a study permit (International Students) or Asylum Claimants (and who may have gone on to hold future work permits).

The composition of economic immigrant principal applicants by admission category (2000-2018 landing cohorts)



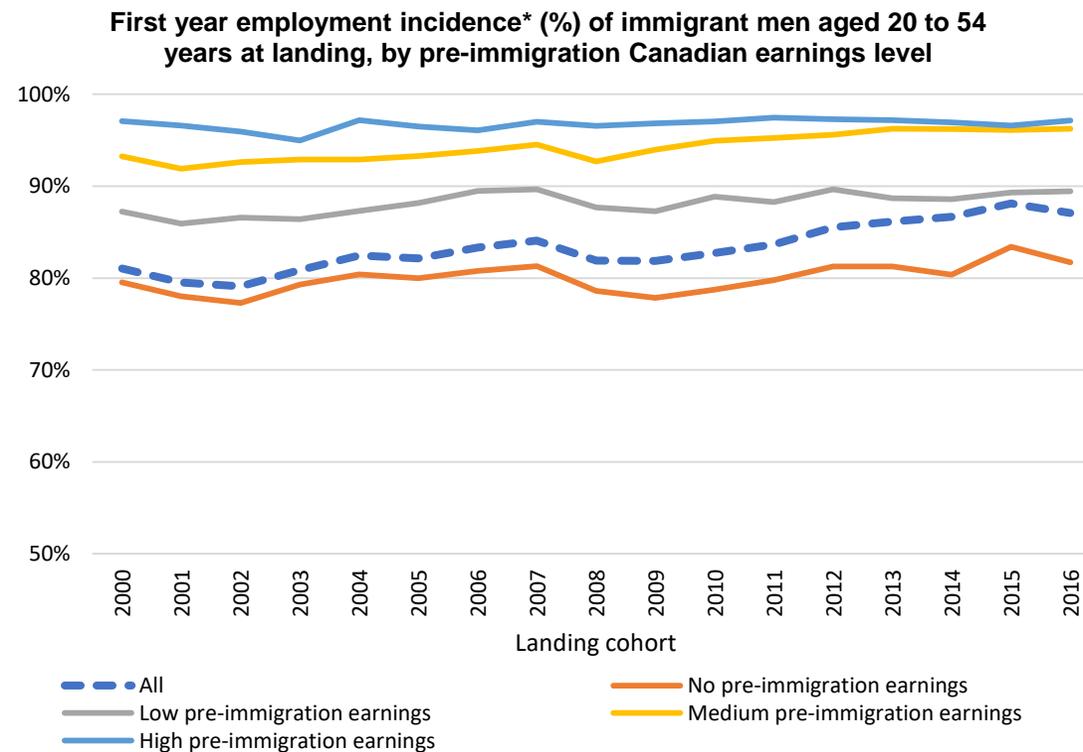
* Other Federal economic immigrant programs include the skilled trades, live-in caregivers, federal entrepreneurs, investors and the self-employed programs; these programs account for a very small share of federal economic immigrants.
 Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020b. "Two-step Immigration Selection: An Analysis of its Expansion in Canada." Statistics Canada, *Economic Insights*. Catalogue no. 11-626-X — 2020010 - No. 112.

The expansion of two-step selection accounts for most of the recent improvements in new immigrants' employment

- Pre-immigration Canadian earnings are associated with large advantages in initial employment rates after immigration.
 - Almost full employment in the first full-year after immigration among immigrants who had **medium or high pre-immigration earnings**¹ in Canada.
 - The first full-year employment rate increased 6 percentage points for immigrant men and 5 percentage points for women between the 2000 and 2016 entry cohorts.
 - About two-thirds of both these increases are accounted for by the rising share of immigrants with pre-immigration Canadian earnings.
- Two-step selection also has direct long-term advantages in employment.

1. How pre-immigration Canadian earnings were categorized:

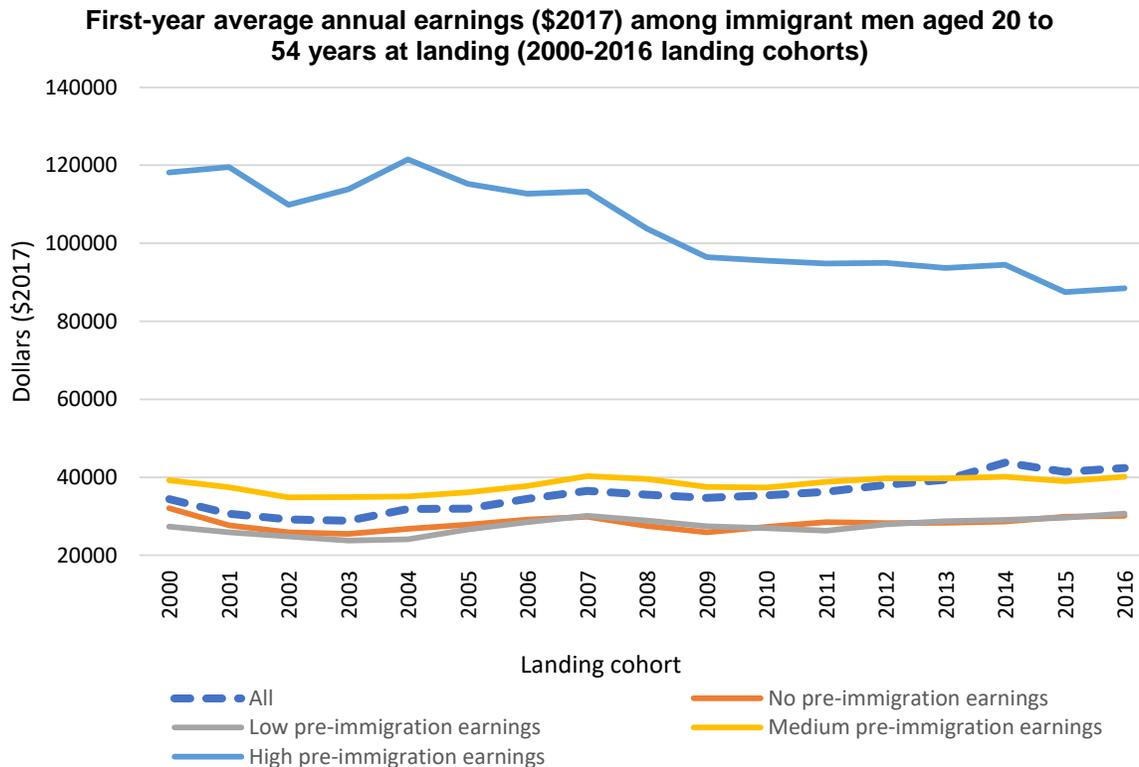
- low (under \$20,000 annually),
- medium (\$20,000 to \$50,000), and
- high (over \$50,000).



* The annual employment incidence is defined as the percentage of immigrant tax-filers who reported at least \$500 employment income in a given tax year.
 Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020c. "Two-step Immigration Selection: Recent Trends in Immigrant Labour Market Outcomes." Statistics Canada, *Economic Insights*. Catalogue no. 11-626-X — 2020009 - No. 113.

Two-step immigration is also behind improved earnings among new immigrants

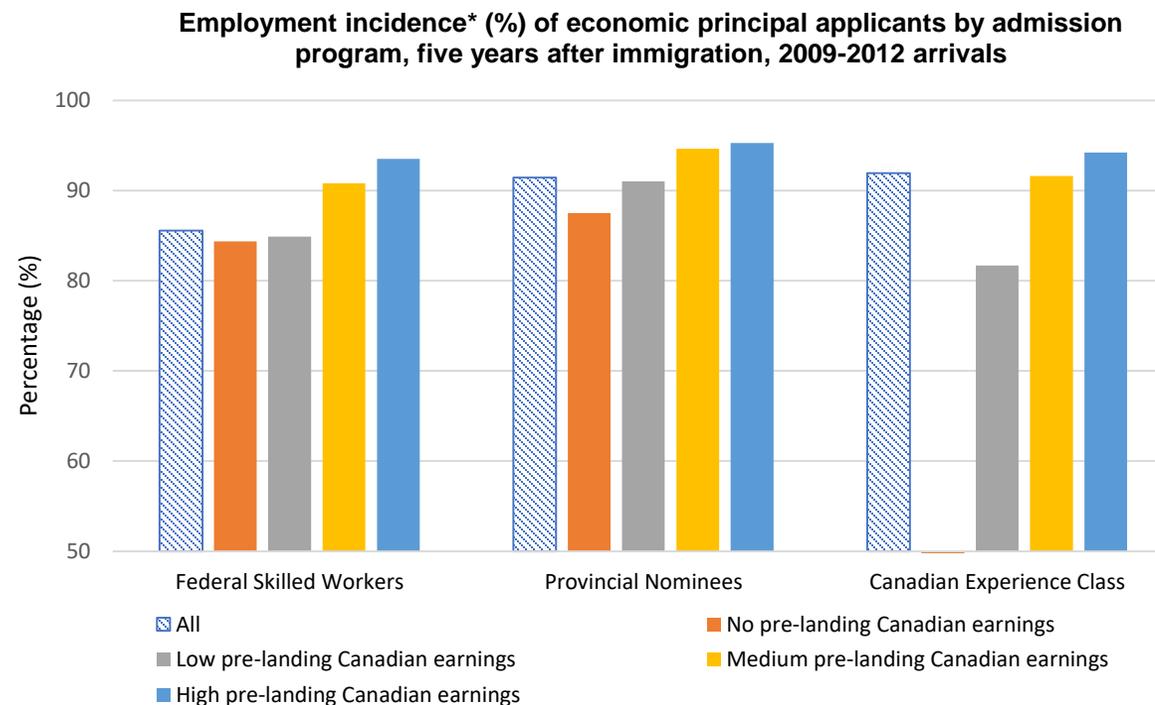
- Very large differences in average annual entry earnings of immigrants by **level of pre-immigration Canadian earnings**.
 - Between the 2000 and 2016 entry cohorts, average entry earnings increased 23% among immigrant men and 32% among women.
 - Over 90% of the increase in entry earnings is associated with the rising share of immigrants with medium and high pre-immigration Canadian earnings.
- Ten years after immigration, immigrants with pre-landing Canadian earnings still earned more than immigrants without pre-landing Canadian earnings.



Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020c. "Two-step Immigration Selection: Recent Trends in Immigrant Labour Market Outcomes." Statistics Canada, *Economic Insights*. Catalogue no. 11-626-X — 2020009 - No. 113.

Two-step selection explains much of the variations in labour market outcomes across economic immigration programs

- CEC and PNP immigrants had much higher observed employment incidences than FSWP immigrants, particularly in the first year, but also in the fifth year after immigration (2009 to 2012 cohort).
 - The employment incidence for CEC immigrants was 15 percentage points higher in the first year, and 6 percentage points higher in the fifth year, than those of FSWP immigrants, respectively.
- About 40% to 60% of CEC and PNP advantages in employment are related to their high shares with pre-immigration Canadian earnings.



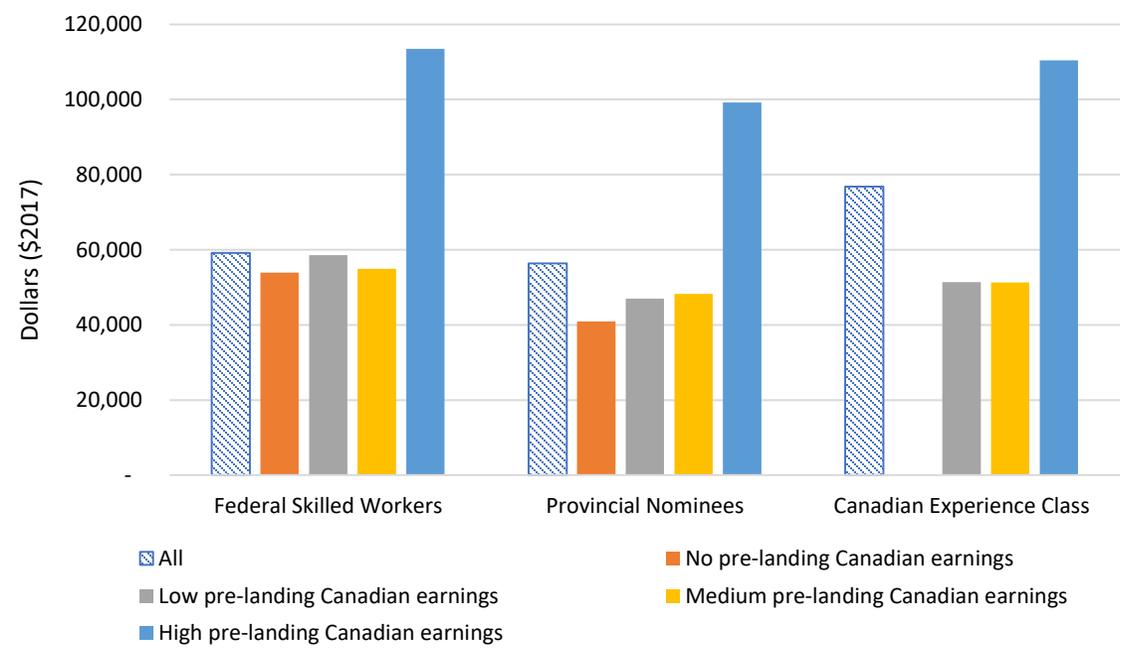
* The annual employment incidence is defined as the percentage of immigrant tax-filers who reported at least \$500 employment income in a given tax year.
 Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020d. "Two-step Immigration Selection: Why did Immigrant Labour Market Outcomes Vary by Admission Programs?" Statistics Canada, *Economic Insights*. Catalogue No. 11-626-X – 2020015 – No. 117.



Much of the observed earnings difference is due to a higher share of PNP and CEC immigrants with medium or high levels of pre-immigration Canadian earnings

- Previous studies have found PNP and CEC immigrants have better earnings outcomes than FSWP immigrants, at least during the early years after landing in Canada.
- This is still the case among 2009-2012 arrivals, **but:**
 - five years after immigration, FSWP and CEC immigrants had essentially the same post-immigration earnings if they had the same level of pre-immigration Canadian earnings, while
 - five years after immigration, **PNP immigrants had significantly lower earnings than FSWP immigrants.** (One possible explanation is that PNP immigrants may be more likely to be selected into medium or low-skill jobs that tend to have slow earnings growth.)
- Over 90% of CEC advantages in earnings are related to their high shares with pre-immigration Canadian earnings.

Annual earnings (\$2017) of economic principal applicants by admission program, five years after immigration, 2009-2012 arrivals



Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020d. "Two-step Immigration Selection: Why did Immigrant Labour Market Outcomes Vary by Admission Programs?" Statistics Canada, *Economic Insights*. Catalogue No. 11-626-X – 2020015 – No. 117.

Benefits and potential challenges associated with two-step immigration selection

Benefits

- Improves the match between immigrant skills and labour market demands because employers can directly assess Temporary Foreign Workers' skills and intangible qualities.
- Temporary Foreign Workers can test out life in Canada before deciding whether to seek permanent residency.
- Temporary Foreign Workers who performed well are unlikely to have difficulty with the portability of their human capital.
- An efficient avenue to fill a specific regional/sectoral labour market need.

Potential challenges

- Some Temporary Foreign Workers may be subject to exploitative working conditions.
- Potential to displace domestic workers and to put downward pressure on the wages of domestic workers.
- May reduce incentives for employers and governments to strengthen education and training systems for domestic workers.
- Employers in search of low-cost labour may prioritize short-term demand over longer-term competitiveness; not effective in addressing the long-term needs of the labour market and broader economy.

Source: E. Crossman, F. Hou, and G. Picot. 2020. "Two-step immigration selection: A Review of Benefits and Potential Challenges." Statistics Canada, *Economic Insights*. Catalogue no. 11-626-X — 2020009 - No. 111.

The results of two-step immigration selection can change over time and affect the labour market outcomes of immigrants selected via this method

- The following trends need to be closely monitored:
 - number of temporary foreign workers in Canada;
 - types of temporary foreign workers who become permanent residents;
 - diversity of temporary foreign workers who become permanent residents; and
 - outcomes of temporary foreign workers as permanent residents in the short-term and long-term.

Summary

- Two-step immigration selection has expanded rapidly in Canada.
- Immigrants who went through two-step selection have higher employment rates and earnings, both at entry and in the long term.
- The expansion of two-step selection accounts for most of the recent improvement in new immigrants' employment and earnings.
- Two-step selection explains much of the variations in labour market outcomes across economic immigration programs.
- Ensuring the benefits of two-step selection continue depends on a variety of factors that might affect both the labour market outcomes of immigrants selected via the two-step process, and the perception by Canadians of immigration.
- The positive labour market outcomes associated with the two-step immigration selection approach point to opportunities to improve the economic immigrant selection process.