

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

Feng Hou, Statistics Canada  
Eden Crossman and Garnett Picot, Immigration, Refugees and Citizenship Canada

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



Delivering insight through data for a better Canada

The views expressed in this presentation are those of the authors and do not necessarily reflect the opinions of the Canadian federal government.

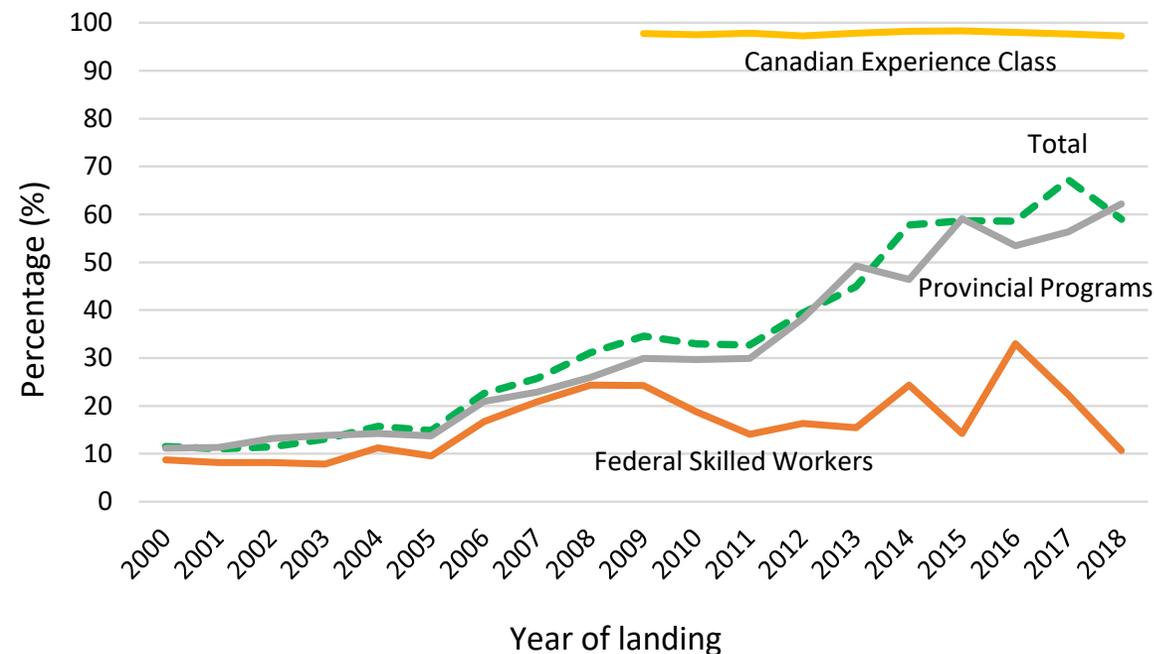
## Purpose of presentation

- 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.

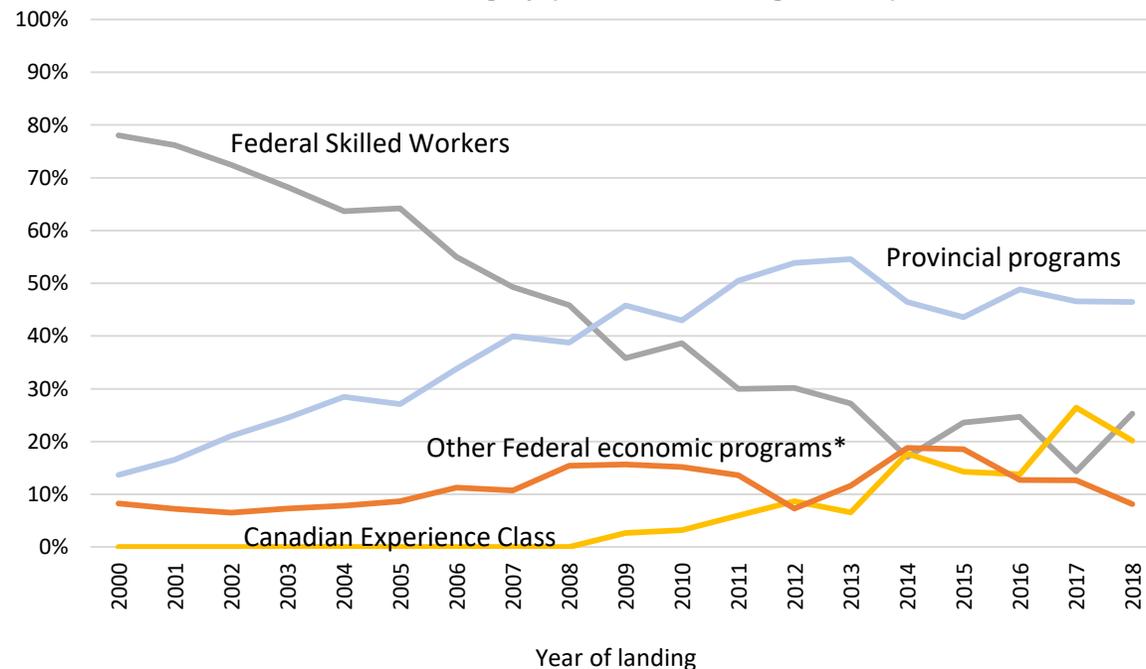
# The expansion of two-step selection has been propelled by the rising number of TFWs and their increased transition to permanent residency

- 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.<sup>1</sup>
- 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.

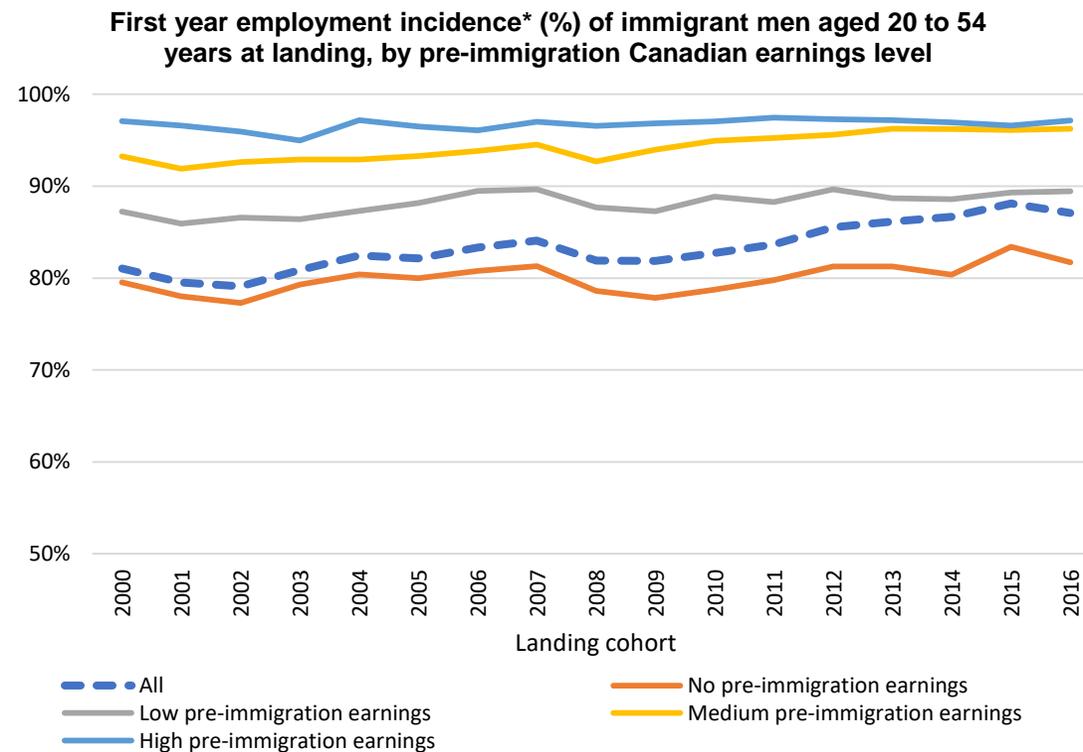
Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020b. "Two-step Immigration Selection: An Analysis of its Expansion in Canada." Statistics Canada, *Economic Insights*. Catalogue no. 11-626-X — 2020010 - No. 112.

# 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**<sup>1</sup> 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

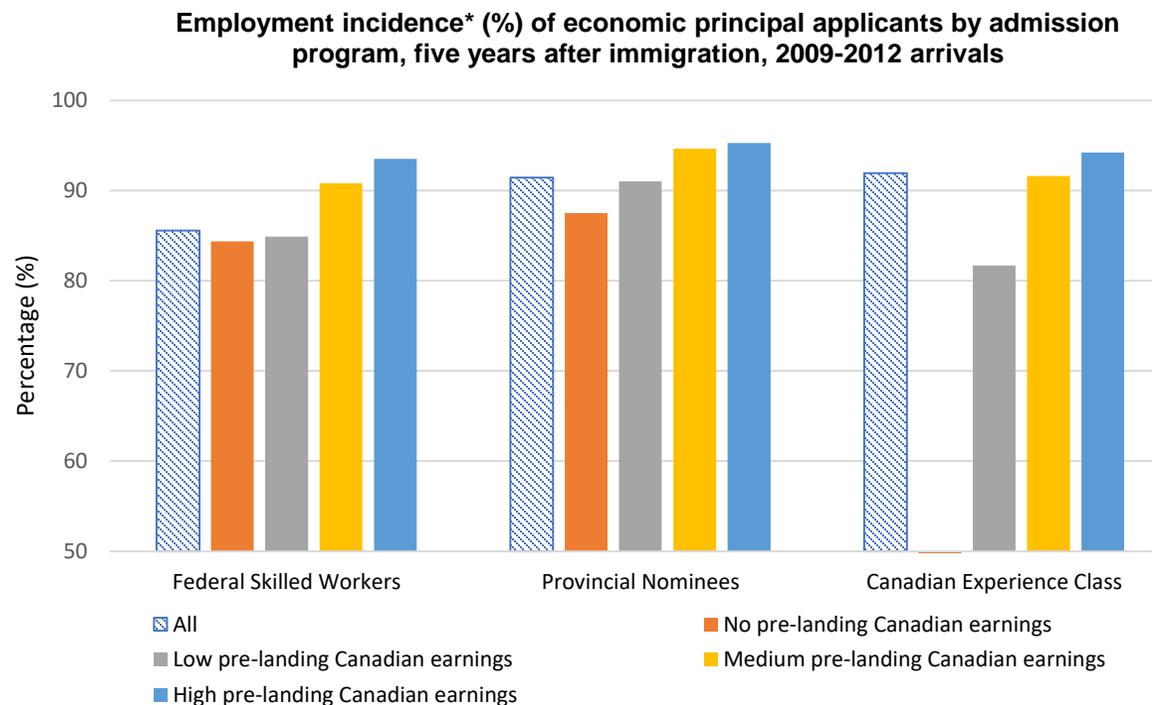
- Very large differences in average annual entry earnings of immigrants by **level of pre-immigration Canadian earnings**.
  - Between the 2000 and 2016 entry cohorts, average entry earnings increased 23% among immigrant men and 32% among women.
  - Over 90% of the increase in entry earnings is associated 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.



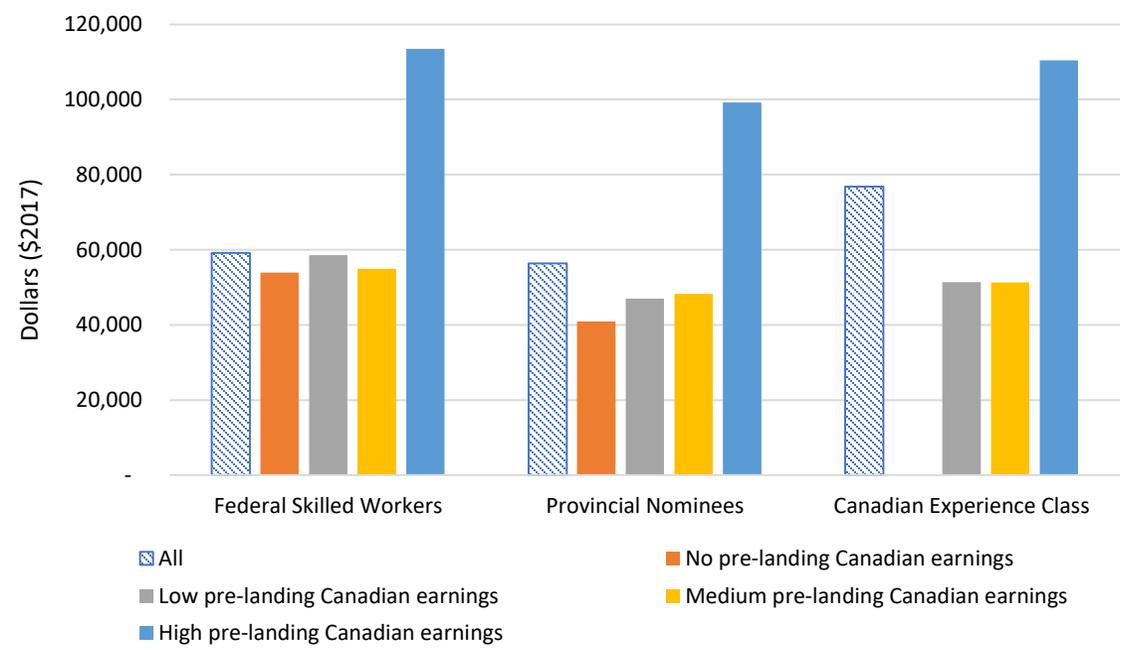
\* The annual employment incidence is defined as the percentage of immigrant tax-filers who reported at least \$500 employment income in a given tax year.  
 Source: The Longitudinal Immigration Database (IMDB); Hou, F., E. Crossman, and G. Picot. 2020d. "Two-step Immigration Selection: Why did Immigrant 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.