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Armed with a chemical engineering degree from the University of Toronto, Andy Xue thought it would be easy to find work.

Little did he know that after months of pounding the pavement, and even more new graduates expected to flood the labour market next month, he is part of a growing demographic in Canada.

"I'm really frustrated. I thought it would be easier to find a job," said Xue, 25, who is still hoping to find something in engineering, but has gone for interviews in other fields including insurance. "I'm trying anything. It's kind of desperate."

He is not alone.

Well-educated young people are being squeezed out of the job market because the recession has created a pool of laid-off workers, willing to take lower paying jobs. And young people are taking entry-level positions that might ordinarily go to high school graduates.

Welcome to Ontario's new labour market.

If governments, employers and unions don't recognize this and come up with a way to tackle these changes, it could mean more income disparity and a greater social divide, warns a new Metcalf Foundation report released this week.

In *Working Better*, author Tom Zizys points to the hourglass-shaped economy that exists now with specialized knowledge workers at the top of the income scale, and lots of entry-level jobs, often in the service sector, at the bottom. In the middle, which requires work experience but not necessarily a degree or diploma, there are few workers.

"When the incomes are more evenly distributed, consumer demand will be higher," he said. "If you have a squeeze in the middle, then people won't be buying houses, and then furniture and appliances, etc."

"The distribution of employment income is important. It's not good economics, and it's not good business for businesspeople to think they can compete on wage only," Zizys said.

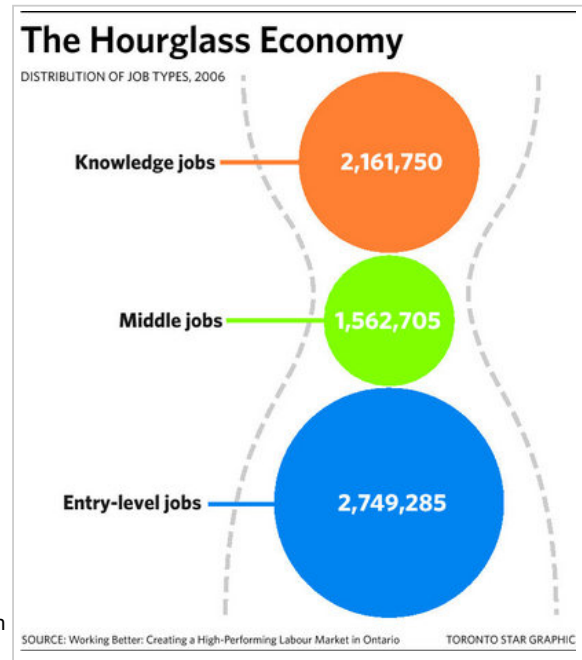
He believes that the emergence of two distinct labour markets at opposite ends of the hourglass creates a polarization of occupations and incomes, but also a polarization of life experiences and expectations.

"We got so caught up with meeting the quarterly returns. Companies are so scared of not meeting the street's expectations, the easy way to meet expectation is to reduce labour costs," he said.

As well, a growing skills mismatch exists. Despite having among the highest number of post-secondary graduates in the world, many young people cannot find satisfying and secure work matching their education.

In 2006, 24 per cent of college graduates and 16 per cent of university graduates employed in Ontario were earning less than half of the national median employment income.

"I've seen an increase of new grads who have hit a wall," said Sarah Rudge of the East Scarborough Storefront. "They had great dreams and expectations, and they end up taking the in-between jobs."



Yet despite an unemployment rate of 7.9 per cent in April, employers often say they can't find the right staff, blaming a skills shortage.

In the past, companies would have trained their staff, who started in an entry-level job and worked their way up the ladder, including potentially becoming CEO. These days, employers are seeking just-in-time talent in a competitive marketplace instead of grooming their own.

Technology and globalization are other factors in the current labour market situation. Zizys argues there needs to be a long-term strategy to ensure that post-secondary graduates have the skills employers want.

That means bringing people together from employers to workers to educators as well as government to figure out how to resolve these challenges. That includes collecting the right data to rethinking how employment centres should work, moving from resume writing courses to actual skills and training programs.

For Xue, he's still knocking on doors, keeping up his hopes.

But he's also a realist. He has been taking some finance courses at night, in case there are more job opportunities there.