

# OBSERVATION

## TD Economics



October 24, 2014

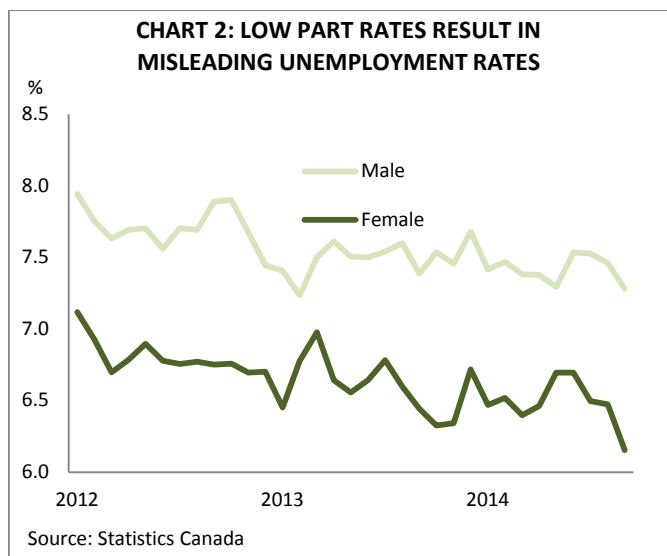
## FALLING FEMALE LABOUR PARTICIPATION: A CONCERN

### Highlights

- The Canadian unemployment rate has been falling, but recently this has been in part due to a declining labour force participation rate. The participation rate may be due to natural demographic shifts or the result of discouraged workers leaving the labour force, the latter of which would be a particular cause for concern.
- The declining participation rate has been largely the result of a pull-back in female participation. A rising working age population together with a shrinking labour force has resulted in falling female participation rates.
- While declines in the labour force are typically chalked up to boomers heading into retirement, the recent drop has been particularly pronounced among working-aged women between 40 to 49 years old.
- Three factors have contributed to the decline: First, female-dominated industries experienced a decline in employment in 2013, and have not fully recovered.
- Second, immigration, particularly in the 40 to 49 age group, has been offsetting population declines from other sources. Immigrant women tend to have lower participation rates, which may help explain the observed decline in overall female labour force participation..
- Third, the trend towards childbirth later in life may be affecting participation rates, as women in later life-stages face less incentive to return to work following a birth.
- However, it should be stressed that female labour force participation remains elevated. Although demographic forces will persist, continued economic growth and integration of newly arrived immigrants should eventually lead to a recovery in female participation rates.

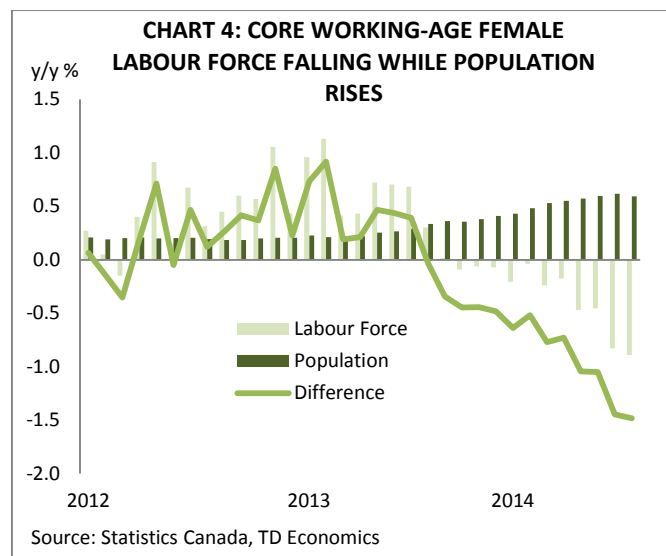
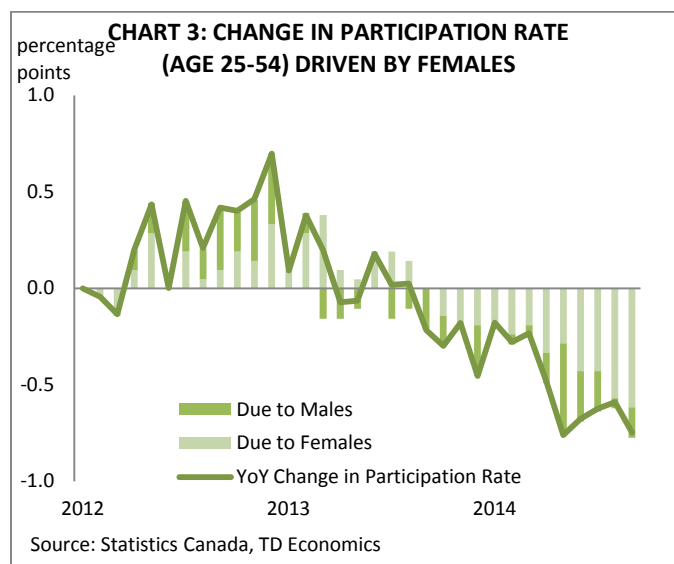
The Canadian unemployment rate has declined steadily since 2010, falling from 8.2% to 6.8% as of September 2014. A falling unemployment rate is widely seen as a positive development for the Canadian economy, but as recent TD research has shown (See [One Indicator To Rule Them All](#)), the unemployment rate is just one slice of the bigger labour market pie. As Chart 1 shows, after reaching a local peak December 2012, the participation rate (the share of working age people who are working or looking for work) has declined markedly, suggesting that workers have begun to leave the labour force. Because the unemployment rate is calculated using individuals who are working or looking for work, a decline in the participation rate will, all else equal, result in a fall in the unemployment rate. Demographic trends, notably the aging of the overall population, will reduce participation rates through time. However, declines in participation due to workers





becoming discouraged (for example), would be a particular cause for concern. Keeping this in mind, a decline in the unemployment rate that reflects a drop in the participation rate isn't necessarily a good thing, especially to the extent that both are driven lower by people leaving the job market because they have given up on finding work.

This can be seen in the headline unemployment rates by sex shown in Chart 2. Females have consistently lower unemployment rates than males, due in large part to lower participation rates. This report will examine in greater detail what factors, if any, have been driving the fall in Canadian participation rates, and what these trends imply for the Canadian labour market going forward.



### Breaking Down the Participation Rate

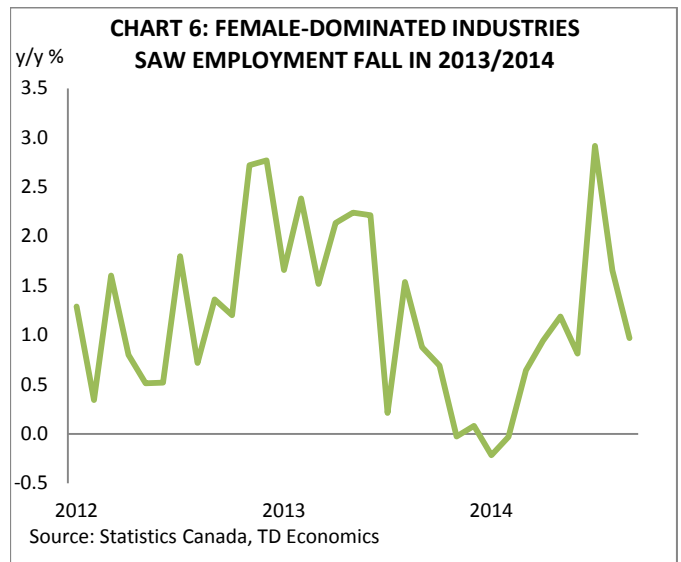
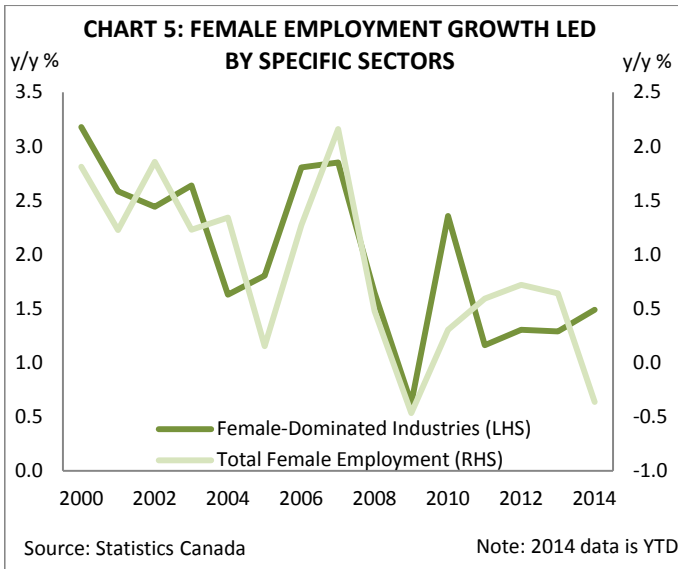
A logical starting point is to look at how the participation rate has evolved by sex. This breakdown (Chart 3) indicates that the majority (>70%) of the decline in the participation rate is due to decreasing female labour force participation since 2013.

A quick look at the composition by age category reveals that for females, large changes in labour participation have occurred over the past year in the 40 to 44 age group (down 2.2 percentage points), and those females aged 45 to 49 (down 2.6 percentage points). Since many automatically chalk up a declining participation rate to the growing wave of boomers heading into retirement, the decline in core working-age women is striking.

The participation rate can change for two reasons: changes in the size of the working age population, and/or changes in the size of the 'economically active' population – people who are working or actively looking for work. The difference between changes in the size of the labour force and of the population results in changes to the participation rate.

Chart 4 plots these changes for females. Late 2013 marked a significant shift, as the labour force began to shrink, while the female population began to grow faster. These two series moving in opposite directions resulted in a rapid fall in female labour force participation.

Changes in the female population and labour force can be further examined. Population changes are a function of immigration patterns, as well as demographics (as females already in Canada join or leave the working age population). Changes in the labour force are more difficult to break down,



but in terms of the labour force, one possible explanation is that there has been a large drop in employment rates in traditionally female-dominated fields, resulting in a significant number of individuals becoming discouraged and dropping out of the labour market.

### Employment in Female-Dominated Industries and Population Growth

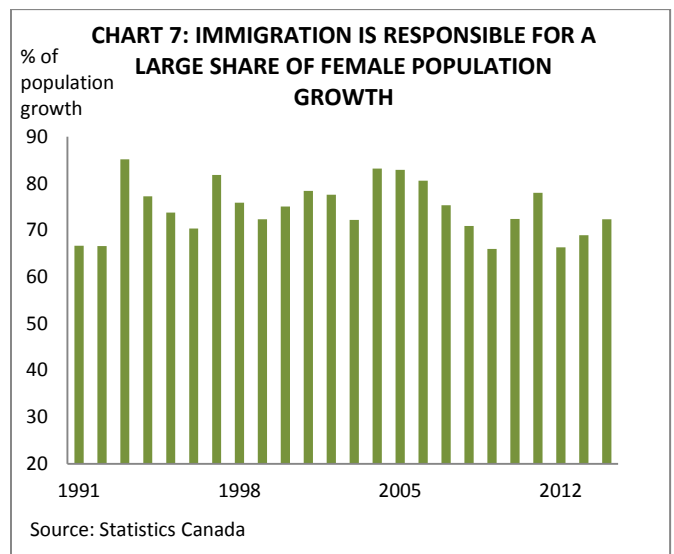
To get an idea of how female employment opportunities have evolved, employment growth in five female-dominated industries can be examined: education; health care and social assistance; retail sales; information, culture, and recreation; and public administration. Chart 5 highlights the strong relationship between employment in these industries and overall female employment.

As shown in Chart 6, employment in these industries experienced a decline in late 2013. While jobs have recovered somewhat in recent months, the recovery was led by the education and public administration sectors, both of which are expected to see spending restraint as governments, particularly at the provincial level, attempt to rein in costs. Moreover, as Chart 5 has shown, year-to-date, total female employment growth has been negative in 2014, despite the recovery in the female-dominated industries. Thus, weak job market conditions could provide a partial explanation.

The other side of the coin is population growth. As the working-age population increases, some share of the new members typically enter the labour force, keeping the participation rate somewhat steady. However, this has not been seen in the recent period. Population growth accelerated somewhat in late 2013 while the labour force shrunk, as seen

in Chart 4. Statistics Canada reports that in the 2014 population estimate, approximately two thirds of recent population growth has been the result of immigration. For females, the rate is slightly higher, as female immigrants outnumber male (Chart 7). In fact, the most recent data indicate that for women aged 40 to 49, the pace of immigration has picked up, with the number of female immigrants growing 5.6 per cent in 2014. Indeed, immigration has more than offset the population declines within this age group from other sources, such as aging and the associated cohort replacement effect.

Although the census population data and the data released with the labour force survey are not directly linked, the trends are expected to be similar. This suggests that population growth led by immigration may be the “missing link” explaining the recent descent in the labour force



participation rate. Statistics Canada research from 2011, as well as previous TD analysis (see the report [An overview of Canada's Labour Market from the NHS](#)) found that immigrants see poorer labour market outcomes relative to their native-born counterparts, including participation rates, with the effect most pronounced for recent immigrants. Moreover, Canada has one of the highest rates of female labour force participation in the world. The gap between Canadian participation rates and rates among new immigrants is thus particularly large, resulting in a larger effect of immigration on overall participation rates than might be expected based on other country's experiences.

### Later Childbirth

Another contributing factor to the decline in labour participation could be the well-established upward trend in the average age of Canadian women giving birth. As Chart 8 shows, the birth rate among women aged 35-39 has risen markedly in the 10 years leading up to 2011 (the most recent data available). As a result, the average age of the mother at childbirth is 29.6 years (the comparable figure for the US is 25.8).

The trend towards childbirth later in life is expected to have continued. It is possible, then, that falling female labour force participation rates among women aged 40 to 49 may be a result of child-rearing decisions. Women may be choosing to delay their return to the labour force following childbirth, which is now occurring later in life.

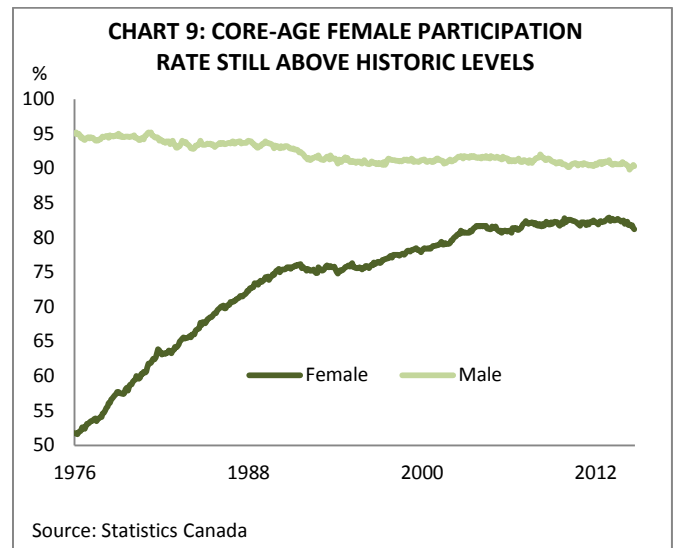
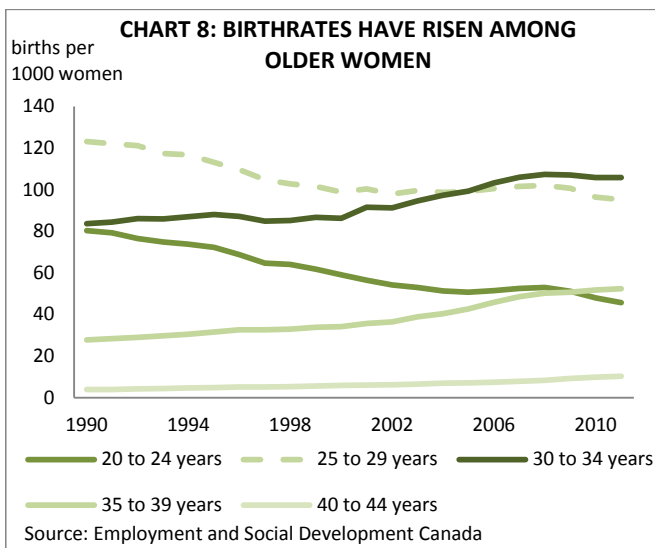
People generally become more financially stable as they age, paying down debts, accruing assets such as a home and investments. Because of this increased stability, women

giving birth later in life may have less financial incentive to return to the labour force quickly, instead relying on savings and/or their partner's income. This incentive would increase with age.

It is important to note, however, that the trend towards later childbirth is not a recent development. Caution is warranted against attributing too much of the recent decline in participation rates to this long-running trend, but it is likely a factor restraining labour participation.

### Bringing the Trends Together

Overall then, what can be said about female participation rates? On the policy front, there have been no major changes that would have acted as a catalyst for falling participation. While the lack of data makes it difficult to draw firm conclusions, three factors can be identified. The first is an acceleration of immigration, associated with lower labour force participation rates. The second factor is the decline of employment in female-dominated industries, which has yet to fully recover. Given the concentration of labour force declines in the 40-49 age group, it is possible that many women chose to leave the labour force following job cuts. At the same time, there has been a trend towards later childbirth, which is associated with declining participation rates among increasingly older age groups. Unusual, however, is that the recovery of employment in these industries has not been joined by a recovery in female participation. It is possible that older women with young children may have a preference towards childrearing, rather than a return to the labour force.



## Bottom Line

While some questions remain regarding the drivers of falling female labour force participation rates, it is important to put these moves in a historic context. Female participation rates remain high relative even to the 1990s and early 2000s (Chart 9), and have seen numerous small corrections in the past, so a recovery could unfold.

There are a number of positive factors that may help reverse the recent participation rate decline. A gradually improving economy will create increasing employment op-

portunities, which should draw disaffected individuals (both male and female) back to the labour market. The recovery of employment in industries traditionally considered “female-centric” should continue, albeit at a slow pace, owing to ongoing and expected efforts at the provincial level to control costs. Finally, as new immigrants spend more time in the country, their participation rates tend to increase, suggesting that the recent acceleration in the female working age population will result in increased participation with time, although the overall increase in the immigrant population will temper this trend somewhat.

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