

Recent Movements in the Labour Force Participation Rate

This article examines recent movements in the labour force participation rate and discusses some of the influences that affect the participation rate and which are expected to continue to have an influence on the participation rate in the longer run.

INTRODUCTION

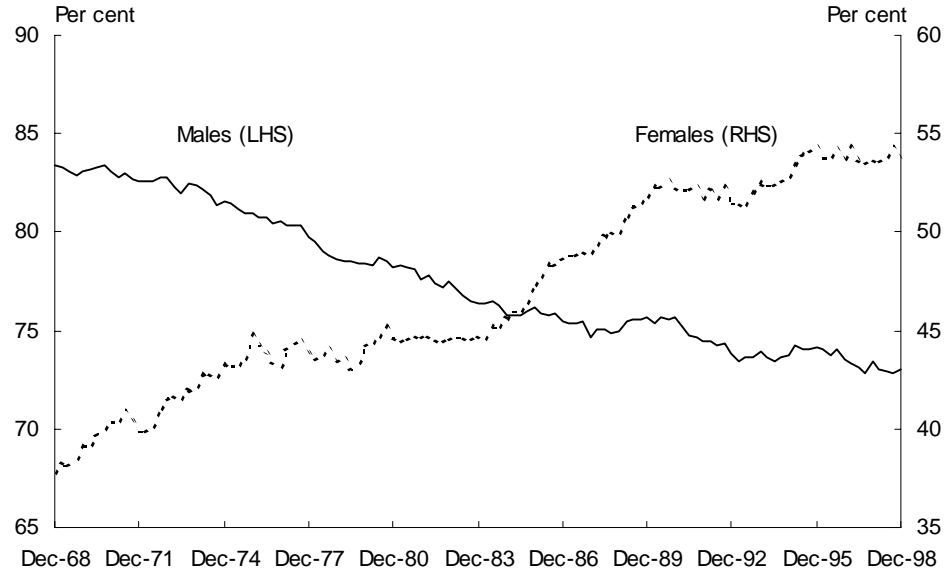
The participation rate is defined as the number of persons in the labour force as a percentage of the working age population.¹ The seasonally adjusted participation rate has risen to 63.2 per cent in 1998, from around 60 per cent thirty years ago. Movements in the participation rate reflect both cyclical and structural influences. The participation rate has a strong positive relationship with cyclical movements in employment opportunities, with the strong economic growth of the 1980s and the subsequent recession of the early 1990s evident in the participation rate.

Apart from these cyclical movements, the participation rate exhibits underlying trend movements that mask quite divergent trends in its components. The male participation rate has been declining over the last thirty years, while the female participation rate has been rising over this period (Chart 1). These well established trends coincide with increased growth in employment opportunities in part-time service industries, which are dominated by females, and slower employment growth in industries traditionally employing full-time male workers, such as utilities, mining and manufacturing. Other factors are thought to have influenced the female participation rate, in particular social and cultural factors which have affected female willingness to remain in the workforce during child rearing years. Youth participation rates have been influenced by the ongoing trend toward increased participation in secondary and tertiary education.

This article will focus on movements in the participation rate over the 1990s and whether these movements have implications for future labour force outcomes.

1 The ABS defines the working age population as persons aged 15 and over.

Chart 1: Male and female participation rates — 1968 to 1998

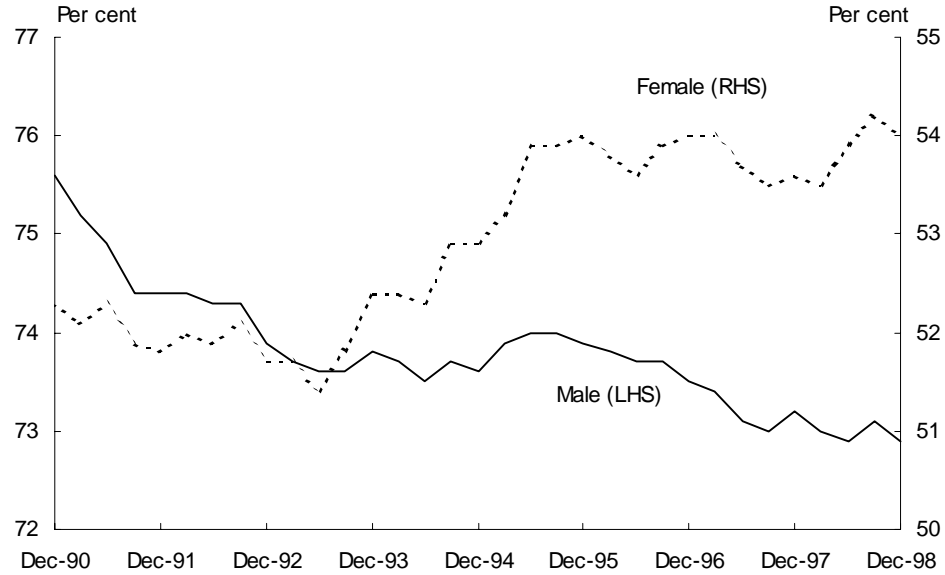


Source: ABS Cat. No. 6202.0. Mid-month of quarter data.

RECENT TRENDS IN THE PARTICIPATION RATE

The participation rate is currently around the same level as it was at the start of the 1990s, although it has varied considerably in this time. This reflects the continued divergence of movements in the male and female participation rates over this period (Chart 2). While the male participation rate has maintained its fairly steady trend decline, the female participation rate picked up markedly from mid-1993 to mid-1995, before flattening out somewhat in recent years. Overall, the fall in the male participation rate over the 1990s has broadly offset the rise in the female participation rate, which is currently around its highest level ever.

Chart 2: Male and female participation rates — 1990 to 1998

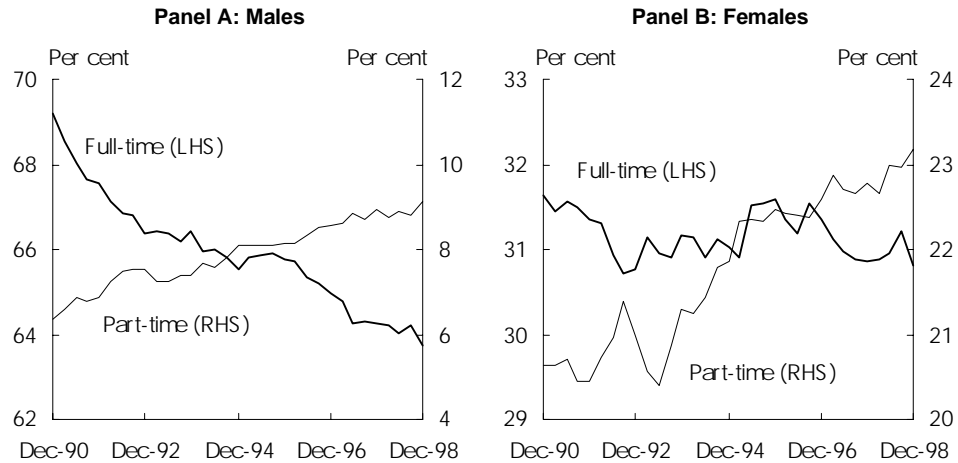


Source: ABS Cat. No. 6203.0.

Further insight into the trends in male and female participation rates may be obtained by disaggregating the data into full-time and part-time participation rates (Chart 3). The male full-time participation rate has continued to decline, falling by around five percentage points since the beginning of the 1990s, while the female full-time participation rate has remained broadly flat over this period.

Both the male and female part-time participation rates have been rising since the early 1990s, by around three percentage points each, although the male part-time participation rate remains much lower than the female part-time participation rate. It appears then that, while the male full-time participation rate has driven the fall in the male participation rate shown in Chart 2, the female part-time participation rate has underpinned the movement seen in the female participation rate over the 1990s.

Chart 3: Full-time and part-time participation rates

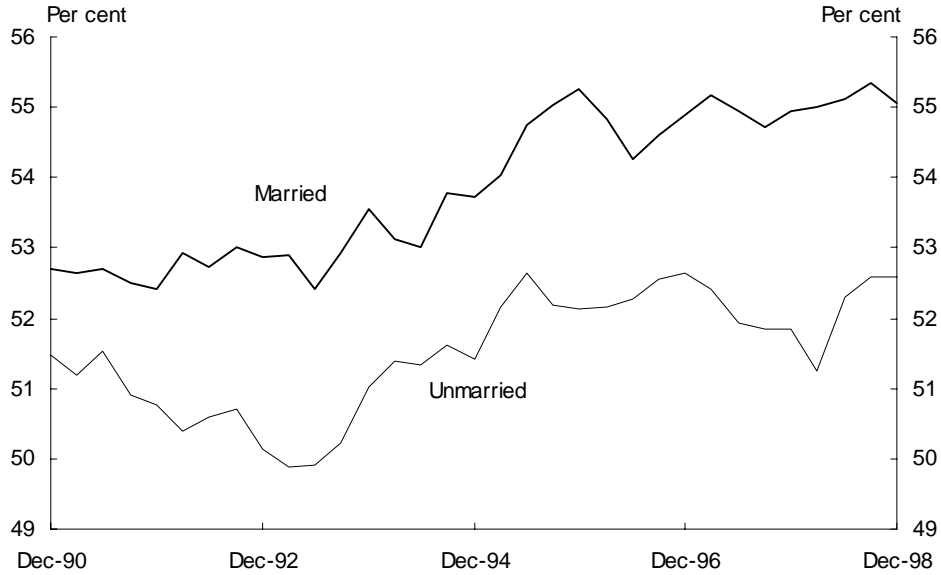


Source: ABS Cat. No. 6203.0.

There are also differences in recent movements in the participation rate for married and unmarried females (Chart 4). Married females have a higher participation rate than unmarried females, with the divergence between the two increasing since the start of the 1990s. The lower participation rate for unmarried females is likely to reflect the disproportionate representation of the young and the elderly² in the unmarried female population. However, movements in the participation rate for this group are likely to be dominated by the higher participation rate for young unmarried females, who are probably more responsive to changing economic conditions.

² Around 34 per cent and 23 per cent of the unmarried female population are between 15-24 and 65+ respectively, compared with 4 per cent and 13 per cent for the married female population. The high proportion of elderly unmarried women reflects the classification of widows as unmarried.

Chart 4: Married and unmarried female participation rates

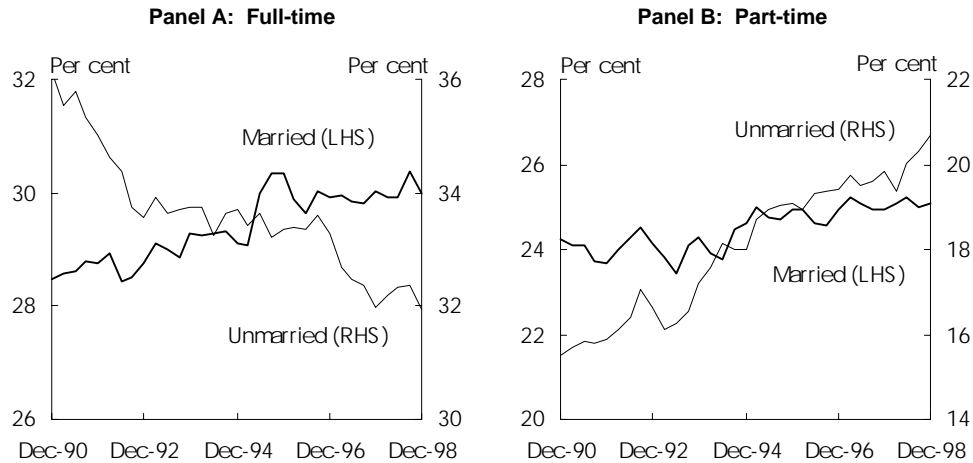


Source: ABS Cat. No. 6203.0.

There are also considerable differences between the married and unmarried female full-time and part-time participation rates (Chart 5). The married female full-time participation rate has increased steadily through the 1990s, apart from a considerable jump around the beginning of 1995. This step-up was not evident in the unmarried female full-time participation rate, which has been declining since the start of the 1990s, apart from a flat period around the mid-1990s (Chart 5, Panel A). In contrast, both the married and unmarried female part-time participation rates have increased through the 1990s. The rise in the unmarried female part-time participation rate has been considerably more marked, rising by around six percentage points compared with around one percentage point for married females (Chart 5, Panel B).

It appears then that the slight rise in the unmarried female participation rate, shown above (Chart 4), reflects the increase in the unmarried female part-time participation rate being partly offset by the decline in the unmarried female full-time participation rate. In contrast, both the married female full-time and part-time participation rates have been moving in broadly the same direction, underpinning the increase seen in the married female participation rate (Chart 4).

Chart 5: Female participation rates

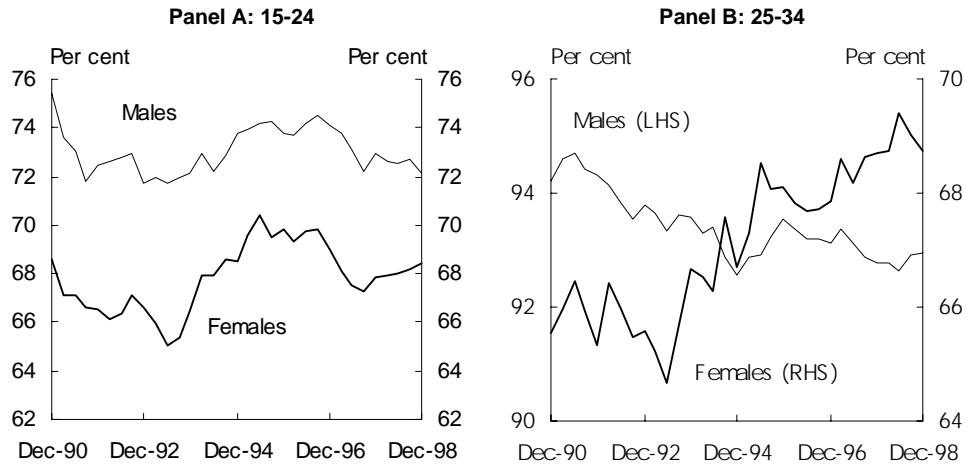


Source: ABS Cat. No. 6203.0.

Male and female participation rates also reflect different participation rates between age cohorts. The participation rates for the 15-24 age cohort for both males and females have been broadly moving together, with the difference between the two smaller than for any other age cohort (Chart 6, Panel A). However the male participation rate remains around four percentage points higher than for females.

In the 25-34 age cohort there are appreciable differences between male and female participation rates. This cohort forms part of the prime working age population, with around 93 per cent of males and 69 per cent of females participating in the labour force. The male participation rate has declined over most of the 1990s, in contrast with the female participation rate which has been increasing since the early 1990s (Chart 6, Panel B). This growth in the female participation rate coincides with the rise in part-time participation seen since late 1993 above (Chart 3, Panel B).

Chart 6: Participation rates by cohort



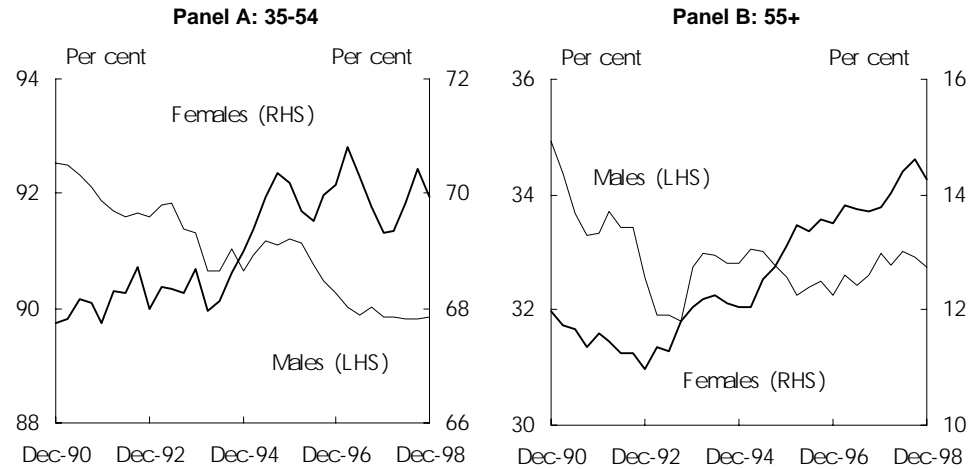
Source: ABS Cat. No. 6203.0.
Seasonally adjusted by Treasury.

The longer-term trends observed in the 25-34 age cohort are also evident in the 35-54 age cohort, which accounts for the remainder of the prime working age population. Again, the 35-54 male participation rate has declined over the 1990s, at around the same rate as the 25-34 age cohort, albeit with some moderation in this decline evident more recently (Chart 7, Panel A). As for the 25-34 age cohort, there is a divergence of around 20 percentage points between the male and female participation rate for this cohort. The rise in the female participation rate for the 35-54 age cohort has broadly offset the decline in the male participation rate seen in this cohort, although it has been particularly volatile in the last five years.

Participation by both males and females in the 55+ age cohort is considerably lower than for the other cohorts. This primarily reflects the inclusion in this cohort of males and females aged 65+, who have a much lower participation rate than the 55-64 age cohort. As a result, the movements evident in both the male and female participation rate for the 55+ age cohort largely reflect changes in participation of persons in the 55-64 age cohort. The male participation rate in the 55+ age cohort has clearly flattened since the early 1990s, broadly coinciding with an increase in female participation in the same age cohort (Chart 7, Panel B).

The above discussion suggests that as participation rates differ markedly between age cohorts, the total participation rate will also be influenced by changes in the age structure of the population over time. This issue is discussed in further detail below.

Chart 7: Participation rates by cohort

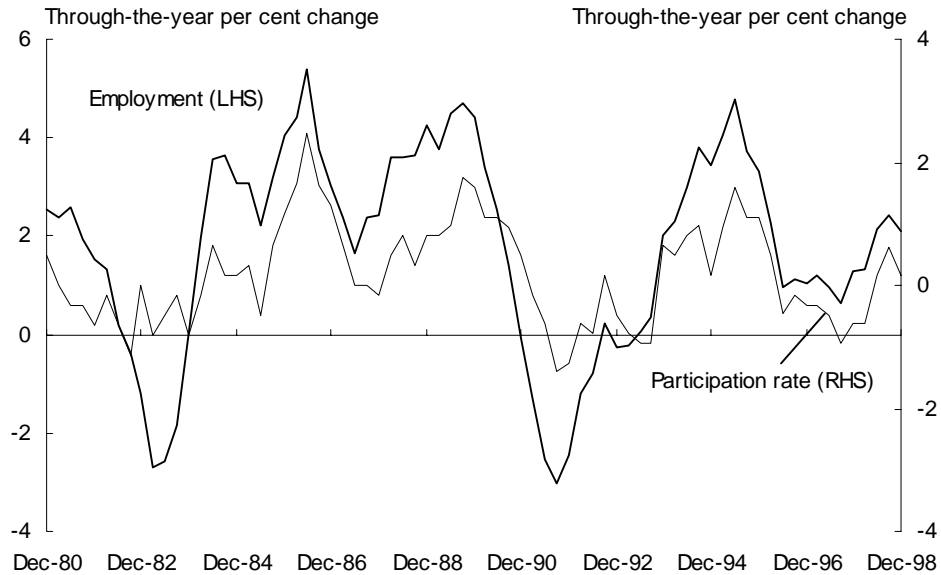


Source: ABS Cat. No. 6203.0.
Seasonally adjusted by Treasury.

INFLUENCES ON THE PARTICIPATION RATE

Factors affecting the participation rate represent an interaction of social, cultural and economic influences. As seen in Chart 8, the participation rate is cyclical, with the participation rate following movements in employment growth. The effect of employment growth on movements in the participation rate is commonly known as the encouraged (or discouraged) worker effect. The strong growth seen in employment in early 1993 was followed by a sharp rise in the participation rate. Similarly, the moderation in employment growth in late 1995 was reflected in a decline in the participation rate.

Chart 8: Employment growth and the participation rate



Source: ABS Cat. No. 6203.0.

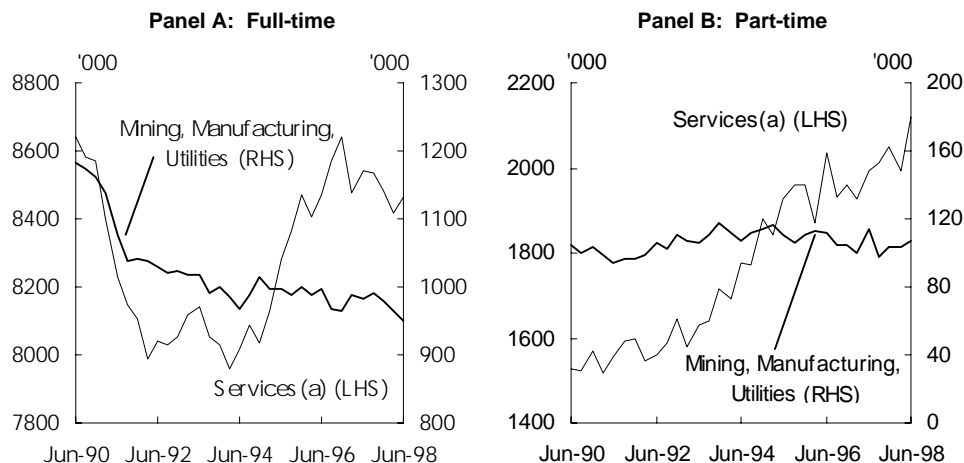
The supply of labour will also tend to respond to changes in the demand for labour over the longer term. As structural changes alter the industry composition of the Australian economy, employment opportunities will also change and the structure of the labour force will accommodate this change.

The difference between full-time and part-time employment growth in the utilities, mining and manufacturing industries and the service industries is marked (Chart 9). Full-time employment accounts for around 90 per cent of total employment in the utilities, mining and manufacturing industries and around 60 per cent in the service industries. Full-time employment declined in both utilities, mining and manufacturing industries and service industries in the early 1990s. While full-time employment growth in service industries strengthened rapidly from late 1994, growth has remained subdued in utilities, mining and manufacturing industries (Chart 9, Panel A). Nevertheless, this strong growth in full-time service industry employment in the last four years disguises quite varied performances. For instance, full-time employment growth in property and business services has been particularly strong since 1995 and has offset weaker full-time employment growth in government administration and retail trade.

Part-time employment growth in services industries — which is a significant proportion of total service employment — has risen sharply since the start of the 1990s. While part-time employment has grown strongly across the board, the sectors which have grown particularly strongly are those which are relatively large employers of women. Since 1990, employment growth has increased on average by 5.4 per cent in health and community services, 4.3 per cent in cultural

and recreational services, 6.4 per cent in education services and 3.9 per cent in property and business services. In contrast, part-time employment growth in utilities, mining and manufacturing industries has remained relatively flat over the 1990s, and remains at a relatively low level (Chart 9, Panel B).

Chart 9: Employment levels



(a) Excluding utilities.
Source: ABS Cat. No. 6248.0.

These employment trends are reflected in male and female participation rates. The male full-time participation rates of the prime working age male cohorts have continued to decline over the 1990s, in line with falls in employment in traditionally male-dominated industries such as utilities, mining and manufacturing, while the flatness of the female full-time participation rate is likely to reflect the divergent employment performance of the full-time service industries.

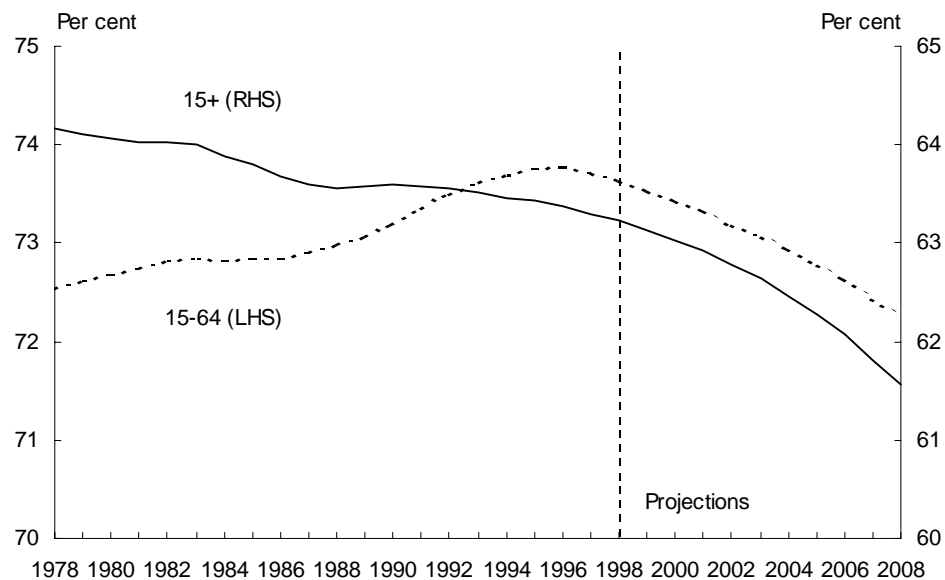
It is also evident that the rapid growth seen in the part-time participation rate for prime working age females, and to a lesser extent males, in recent years reflects the impact of continued strong part-time employment demand from service industries. To the extent that the industry composition of the Australian economy continues to change, it is likely that it will have further implications for labour force participation rates.

Movements in the participation rate will also reflect longer-term structural factors. As mentioned earlier, changes in the social acceptance of women with children working and the greater availability of childcare have contributed to a trend increase in the female participation rate. The potential for social and cultural factors to underpin further rises in the participation rate is a matter of speculation. However while it seems unlikely that the female participation rate will ever reach the male participation rate in the prime working age cohort, due

to this period coinciding with child bearing/rearing years, female participation in the labour force continues to rise, albeit at a slower rate than seen previously.

The age structure of the population can also influence the total participation rate. As discussed above, participation rates can vary markedly for different age cohorts. As the proportion of the population in the various age cohorts changes over time, the total participation rate will change. The impact that changes in the age structure alone have had on the participation rate over recent decades, and are projected to have over the next decade, is illustrated in Chart 10. These estimates were made by assuming that the participation rate of each age-group remains constant at a base value (in this instance June 1998) while changing the age-composition of the working age population in line with actual and projected outcomes, the latter based on ABS population projections.

Chart 10: Participation rate — impact of demographic changes



Source: ABS Cat. No. 3201.0, 3222.0, 6203.0.

Chart 10 highlights key components of the impact of changes in the population age-structure on the participation rate. The increase in recent decades in the 15-64 participation rate primarily reflects the positive influence of the movement of the 'baby boomer' generation into the peak participation age-groups. The projected decline in this rate primarily reflects the negative pressure on the participation rate of the 'baby boomer' generation starting to leave the peak participation age groups. The decline in the 15 and over participation rate over recent decades reflects the negative effect of the increased proportion of the working age population in the low participation 65+ age-group more than offsetting the positive influence of the 'baby boomer' effect over this period. The decline in the 15+ participation rate is projected to continue, due to both the projected continued increase in the proportion of the working age population in

the 65+ age group and the negative influence of the 'baby boomer' effect over this period.

While changes in the age-structure of the population are expected to continue to exert negative pressure on the participation rate over the coming decade and beyond, it should be noted that the age-structure is but one of several influences on the participation rate. In particular, projections of changes in participation rates based only on changes in the age-structure should not be taken as estimates of likely future participation rates. Indeed, the labour force characteristics which are a feature of the 'baby boomer' generation may have important implications for the participation rate in the future. Changing social attitudes have been important to date in enticing these 'baby boomer' females, in particular, into the labour force. It may be that as this generation has maintained a stronger attachment to the labour force than previous generations, they may continue to participate in the labour force to a greater extent than seen historically as they leave the peak participation age-groups.

CONCLUSION

The participation rate has exhibited clear trends over the 1990s. In particular, the continued decline in the male participation rate over this period has broadly offset the ongoing increase in the female participation rate. While movements in the male participation rate primarily reflect movements in the full-time participation rate, the female participation rate has been largely driven by changes in the part-time participation rate, for both married and unmarried females. The prime working age cohort (25-54) for both males and females has had the largest impact on the total participation rate, although the rise in the female participation rate aged 55+ has also had some influence.

While the participation rate demonstrates clear cyclical movements, primarily reflecting the encouraged worker effect, it has also been affected by longer-term structural changes in employment demand. Stronger part-time employment growth in service industries has been reflected in rapid growth in the part-time participation rate for females, while the fall in full-time employment growth in utilities, mining and manufacturing industries has been associated with the decline in full-time male participation rates.

Changing age structures have had a net negative impact on the participation rate in recent decades, with the positive impact of the 'baby boomer' generation being more than offset by an increase in the proportion of the population aged over 65. The changing age structure of the population is expected to continue to exert a downward influence on the participation rate as the population continues to age and the 'baby boomers' move into lower participation age cohorts. However, as in the past two decades, this impact may be tempered by greater female attachment to the workforce and longer term structural changes in the demand for labour.

