

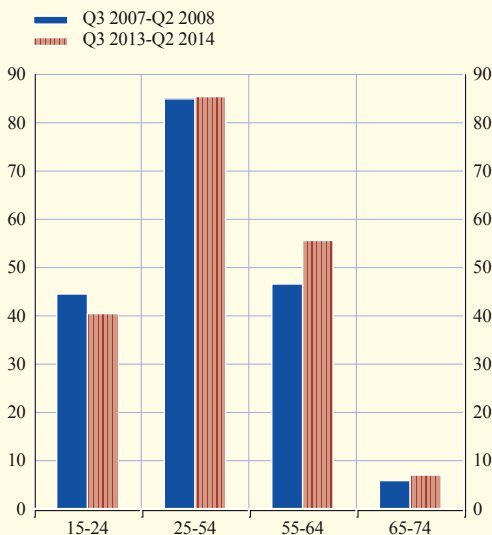
RECENT DEVELOPMENTS IN THE LABOUR FORCE PARTICIPATION RATE IN THE EURO AREA

Despite the severe recessionary periods that have affected the euro area in recent years, the labour force participation rate in the euro area has shown (atypically) positive developments. Defined as the share of the working age population that is either employed or currently seeking work, the participation rate¹ was on a rising trend in the euro area from 2000 to 2012. It then stabilised at around 64% in 2014. This box reviews recent developments in participation rates in the euro area as a whole and in the four largest euro area countries, and discusses the impact of demographic trends in comparison with other cyclical and structural factors.²

The rise in the aggregate participation rate has been driven mainly by the increase in the participation rates of older age groups (55-74), while the participation rate of younger age groups (15-24) has been falling (see Chart A). At the same time, the evolution of the population distribution was putting downward pressure on the participation rate. This is explained by the fact that the shares of the population subgroups with the lowest participation rates (those between 55 and 74 years old) have increased, whereas the shares of those with the highest participation rates (mainly the prime-age population) have decreased (see Chart B).

Chart A Developments in participation rates across age groups in the euro area

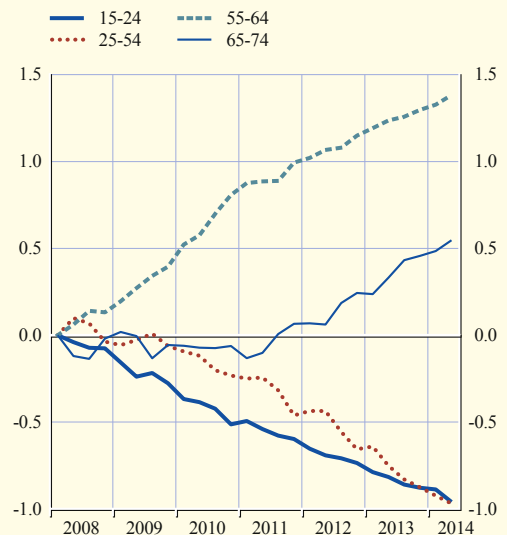
(labour force participation rates for the 15-74 age group)



Source: Eurostat, Labour Force Survey.

Chart B Developments in the shares of each population subgroup in the total working age population (aged 15-74)

(change in percentage points since the second quarter of 2008)



Source: Eurostat, Labour Force Survey.

1 This box focuses on the population aged between 15 and 74.

2 For a further discussion of factors affecting the labour force participation rate, see the box entitled "Recent developments in labour market participation in the euro area", *Monthly Bulletin*, ECB, Frankfurt am Main, November 2013.

There have been diverging developments in participation rates across the four largest euro area countries since the start of the crisis.

The participation rate has risen sharply in Germany and shown a slight increase in France (see Chart C). In Spain, the participation rate continued to rise despite the heavy impact of the crisis on its labour market,³ before starting to fall at the beginning of 2013. In Italy, after declining, the participation rate started to increase again in 2012.

The rise in the German participation rate was driven mostly by changes in participation behaviour across age groups, particularly in older age groups, which might be due to the implementation of the Hartz reforms and the phasing-out of early retirement options between 2006 and 2010. From 2009 participation rates also benefited from an increase in net immigration to Germany.

In France, the small rise in the participation rate was mainly attributable to an increase in the participation rate of older age groups (driven by an increase in the retirement age). In Spain, the rise in the participation rate up to 2012 mainly reflected positive changes in participation decisions (primarily among those aged between 40 and 64), which broadly offset the negative impact of changes in the population composition. The sharp rise in the Spanish participation rate also benefited from the resilience of the upward trend in female participation (which started in the 1980s). The fall in the participation rate since 2013 to some extent reflects the outward migration of foreigners and could also be explained by the fall in the participation rate of both the youth cohorts and older (those aged between 65 and 74) cohorts. In Italy, the negative impact of changes in the population composition was broadly offset by changes in participation decisions. The sharp decline in the participation rate that started after 2008 was related to the increase in discouraged workers. From 2012 the participation rate started to rise again, partly driven by the pension reform, which foresaw a gradual increase in the retirement age and restrictions on early retirement.

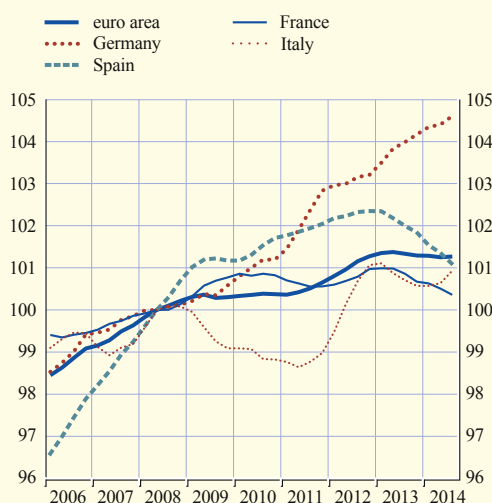
Concluding remarks

Looking ahead, the population distribution in the euro area is changing, with the share of older age groups (where participation rates are lower), in particular, increasing over time. Although higher participation rates can be expected from these older age groups (as a result of improvements in health and life expectancy, benefit reforms and retirement ages), further increases in the participation rate of all age groups will be needed if the aggregate participation rate is to continue to follow a rising trend.

3 The participation rate in Spain appears to be very resilient, whereas the unemployment rate tripled between 2008 and 2013.

Chart C Participation rates in the euro area and the four largest euro area countries

(population aged 15-74; four-quarter moving average; index: Q2 2008 = 100)



Source: Eurostat, Labour Force Survey.