



## **THE LABOUR FORCE PARTICIPATION RATE SURPRISES AGAIN IN THE JUNE 2009 QUARTER**

The June 2009 quarter Household Labour Force Survey (HLFS) results showed that the labour market continued to weaken, with the unemployment rate rising sharply to 6.0%. The marked rise in the unemployment rate was largely due to the unexpected increase in the participation rate. In this note we explore why the participation rate rose and what it may mean for the participation rate going forward.

### **The labour force participation rate increased slightly over the quarter, against expectations of a fall**

The labour force participation rate increased from 68.3% to 68.4% in the June 2009 quarter, against our expectations of a fairly sizeable fall. As employment falls, we usually expect labour force participation to follow suit. This is because when jobs are hard to come by people may feel discouraged to look for further employment and opt for early retirement or take up other activities such as studying.

But what caused the participation rate to remain high over the quarter? The June 2009 quarter labour market data showed that the rise in the overall participation rate came from males, who recorded a 0.4 percentage point increase to reach 75.2%, while the female participation rate declined by a 0.1 percentage point to 62.1%. Assuming that the rise in overall participation rate was real, and not due to variability in the HLFS, what does the data tell us when we look at this broken down by age and gender?

### **The boost in the overall participation rate came from younger males as well as men in their forties**

Figure 1 shows that over the June quarter the boost in male participation<sup>1</sup> came from the younger age groups, particularly the 20-24 and the 25-29 year groups and also from men aged in their forties. Meanwhile, the decline in female participation was largely driven by women between the ages of 25 and 44 (figure 2).

One thing to note from the two figures is that over the past year, substantial increases in participation have been recorded for both genders in the older age groups. Male and female workers aged between 60 and 64 recorded a 1.8 and 3.1 percentage point increase in participation rate respectively over the year to June 2009.

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<sup>1</sup> The participation rate by age series has been seasonally adjusted by the Department using a direct approach. Because of this, the aggregate series will differ slightly to the official Statistics New Zealand series.

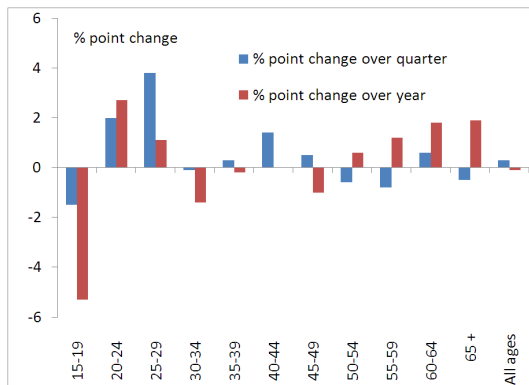


### Older workers are staying in the workforce for longer

The increase in older worker participation may be reflecting a combination of factors. Older workers whose wealth and savings have been affected during this recession may be staying in the workforce for longer, causing a temporary lift in the participation rate. Additionally, other underlying longer-term factors may be at play here. For example, improving health and a change to policy in the New Zealand Superannuation eligibility age in the 1990s may be causing the participation rate for this age group to rise.

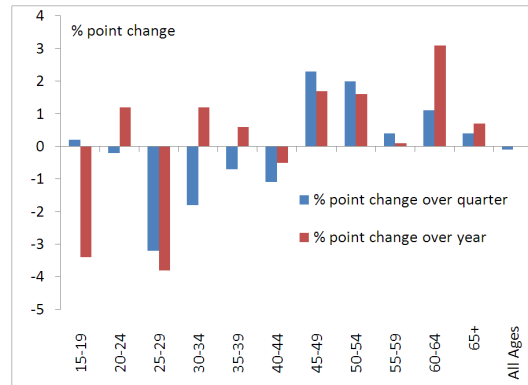
But even if this trend in older workers continues, it is not enough to offset the effect of New Zealand’s ageing population on the overall labour force participation rate. This is because a larger number of people will retire and leave the labour force causing the aggregate participation rate to fall. Stevens in 2007<sup>2</sup> estimated that the ageing population would cause the overall participation rate to decline 2.5% over the next eight years.

Fig 1: Seasonally adjusted percentage point change in male participation rate by age



Source: Statistics New Zealand. Seasonally adjusted by DoL.

Fig 2: Seasonally adjusted percentage point change in female participation rate by age



Source: Statistics New Zealand. Seasonally adjusted by DoL.

In both the above figures, the decline in participation in the younger age group (15-19) over the year is quite marked. This comes as no surprise given that youth (defined as those aged 15-24 years) are one of the groups most affected during a recession. This is because youth usually have lower skill and experience levels which put them at higher risk. Meanwhile, the participation rate for the 20-24 year age group increased over the year, suggesting that it is actually the younger, 15-19 year age group, that is most affected during an economic downturn.<sup>3</sup>

<sup>2</sup> Stevens, D. (2007). Labour force participation in New Zealand – past, present and future. Westpac occasional paper.

<sup>3</sup> Employment declines for the 15-19 year olds have also been more pronounced than that for the 20-24 year age group. This is consistent with the declines in participation rate for this age group.

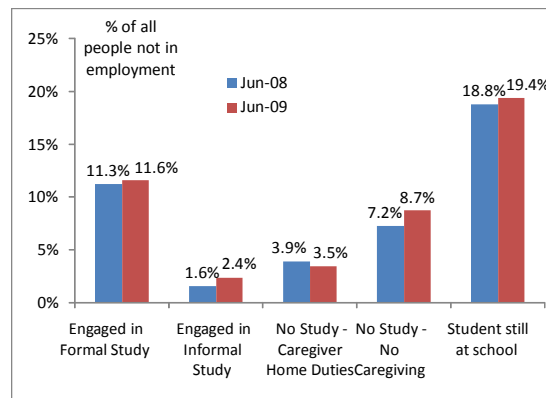


### Increased participation in education for youth who are not in employment

Figure 3 shows that the proportion of youth not in employment but who were participating in education increased over the year. The proportion of youth engaged in informal study rose over the year from 1.6% to 2.4% in the year to June 2009. The proportion of youth engaged in formal study increased from 11.3% to 11.6%, while the proportion still at school increased from 18.8% to 19.4%. The data suggests that youth are leaving the labour force altogether and opting into study. However, the percentage of youth not in employment, education or training (NEET) has also risen over the past year from 7.2% to 8.7%.

The increase in participation in education is typical during a recession and a similar rise was seen in the 1990s recession, where there were significant increases in participation in senior secondary school and in tertiary education. Between 1986 and 1993, participation at the secondary school level increased from 36% to 53% and participation in degree-level qualifications also increased from 2% to around 3.5% during the same period. Furthermore, participation levels in education after the mid-1990s remained above the levels seen before the 1990s recession.<sup>4</sup>

Fig 3: Youth (15-24 yrs) not in employment, year to June 2009



Source: Statistics New Zealand.

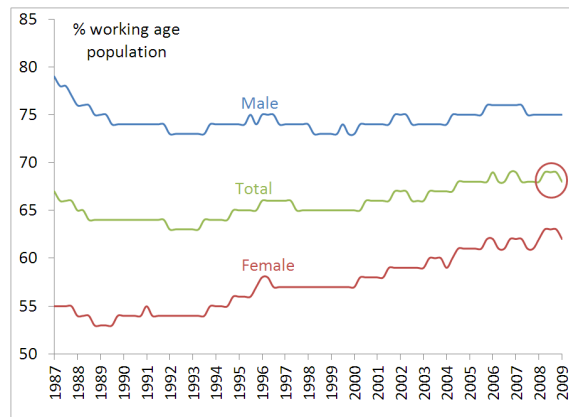
<sup>4</sup> Smart, W. (2009). Ebbs and flows: Participation in post-compulsory education over the economic cycle. Ministry of Education. [www.educationcounts.govt.nz/publications/tertiary\\_education/49254](http://www.educationcounts.govt.nz/publications/tertiary_education/49254)



## Trend series shows that the overall participation rate declined over the quarter

Figure 4 shows the trend participation rate series, for all of New Zealand as well as for both genders. The trend series<sup>5</sup> is very useful for getting a better idea of the underlying direction of movement in the series. One interesting thing to note is that the trend total participation rate actually declined over the June quarter, while male participation remained stable. This is more in line with our expectation for the overall participation rate trending lower in the medium term and suggests that the slight increase in the seasonally adjusted series may have been partly due to variability typically seen in this survey.

*Fig 4: Trend series: labour force participation rate by gender*



Source: Statistics New Zealand.

Looking forward, we expect that the participation rate will trend lower over the coming quarters, consistent with further declines in employment. The question is, whether the participation rate will decline as much as we have seen in past recessions. The degree to which the participation rate will decline will partly be tempered by how many *more* people opt out of the labour force to study, given that the level of participation in education was already high entering into the recession, and so the scale of increase in this recession is unlikely to be so great (Smart, 2009). On the other hand, the rise in the older workers' participation rate will not be sufficient to offset the effects of an ageing population.

<sup>5</sup> The trend series has both the seasonal and irregular components removed.