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Labour Force Participation: A Comparison of the United States and Canada



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Abstract

This note explores the drivers behind the recent increase in the US participation rate in the labour market and assesses the likelihood of a similar gain in Canada. The growth in the US participation rate has largely been due to a pickup in the participation of prime-age workers following a post-recession decline. The prime-age participation rate in Canada, however, did not experience a significant drop following the 2008–09 recession, suggesting that the scope for drawing more prime-age workers into the Canadian labour force is more limited than in the United States. This does not preclude the possibility that the Canadian participation rate could rebound for other reasons, however. Indeed, the Canadian youth participation rate fell following the recession and could potentially recover in response to stronger labour market conditions. While the US youth participation rate also fell following the recession, this continued a long-standing trend decline in this rate, which suggests the recent drop in the United States could be more permanent.

Bank topics: Labour markets, Recent economic and financial developments

JEL Codes: E, E2, E24, J, J2, J21

Résumé

Cette note examine les facteurs à l'origine de la hausse récente du taux d'activité aux États-Unis et s'interroge sur la vraisemblance d'une évolution comparable au Canada. L'accroissement du taux d'activité aux États-Unis a résulté essentiellement du redressement de l'activité des travailleurs dans la force de l'âge qui a succédé à la baisse survenue après la crise. Le Canada n'a, pour sa part, pas connu de recul sensible du taux d'activité de sa population dans la force de l'âge dans la période qui a suivi la récession de 2008-2009, de sorte que le nombre de travailleurs dans la force de l'âge susceptibles de faire à nouveau partie de la population active y est moins important qu'aux États-Unis. Cela n'exclut cependant pas la possibilité que le taux d'activité au Canada puisse remonter pour d'autres raisons. Ainsi, le taux d'activité des jeunes, qui a chuté dans la foulée de la récession, pourrait éventuellement se redresser à la faveur d'une amélioration de la situation sur le marché du travail. Un recul du taux d'activité des jeunes a aussi été observé aux États-Unis au lendemain de la récession, mais il s'inscrivait dans le prolongement d'un déclin tendanciel amorcé depuis longtemps, ce qui laisse penser que la baisse récente aux États-Unis pourrait avoir un caractère plus permanent.

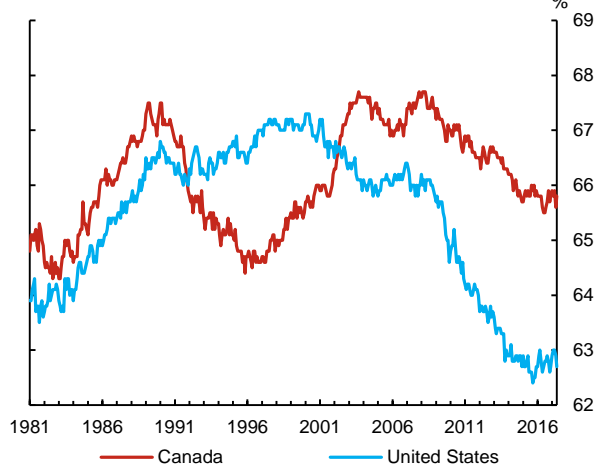
Classification de la Banque : Marchés du travail; Évolution économique et financière récente

Codes JEL : E, E2, E24, J, J2, J21

1. Introduction

Labour force participation rates in both Canada and the United States declined following the 2008–09 recession. Since late 2015, the US labour force participation rate has rebounded slightly, raising the question of whether a similar increase can be expected in Canada. Participation rates in both countries remain depressed relative to pre-recession levels. More recently, the strong US labour market drew workers back into the labour force and resulted in a small rise in the participation rate from 62.4 per cent in September 2015 to 62.7 per cent in May 2017 (**Chart 1**).^{1, 2} Based on an analysis of cross-

Chart 1: Total labour force participation rates for Canada and the United States



Sources: Labour Force Survey (Canada), Current Population Survey (United States) Last observation: May 2017

country differences in prime-age and youth participation rates, our assessment is that it appears unlikely that the Canadian participation rate will increase for the same reasons as those in the United States have (i.e., a pickup in prime-age participation). However, this does not preclude the possibility that the Canadian participation rate could rebound for other reasons (e.g., an increase in youth participation).

2. Post-Recession Dynamics in the Labour Force Participation Rate in the United States and Canada

Despite similar declines, post-recession developments in the US and Canadian participation rates have been quite different. Since 2008, the participation rate in the United States declined by much more than it did in Canada (**Chart 1**). The US participation rate is currently 3.5 percentage points (p.p.) below the level it was in January 2008, whereas the Canadian participation is only 1.8 p.p. lower. While population aging and a decline in youth participation are two common factors driving the decrease in aggregate participation rates in both countries, developments in prime-age and older worker participation rates differ (**Chart 2A** and **Chart 2B, Box 1**).³

¹ This note is based on data up to and including May 2017 for both Canada and the United States.

² There are some methodological differences in the US and Canada participation rates. See the **Appendix** for more information.

³ Youth participation rates relate to individuals aged 15 to 24 in Canada and 16 to 24 in the United States. The participation rates of prime-age and older workers relate to individuals aged 25 to 54 and 55 and older,

Chart 2A: Youth and prime-age participation, along with population aging, drive the participation decline in the United States

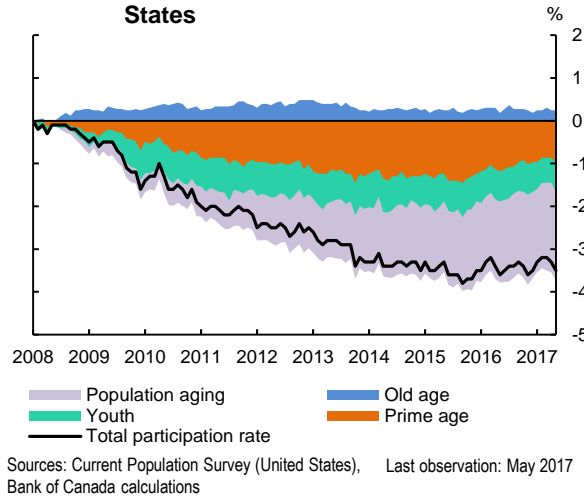
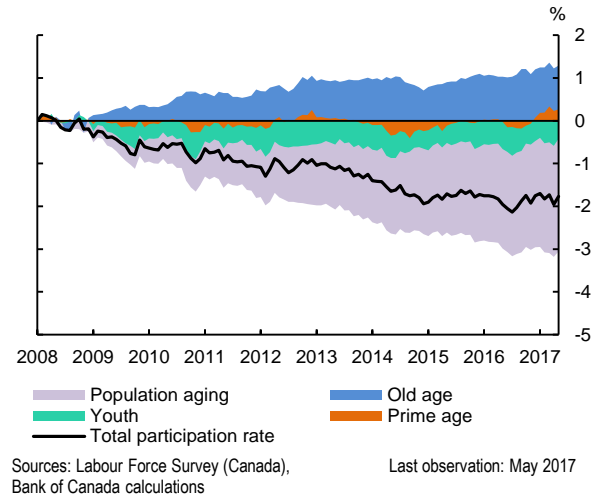


Chart 2B: Youth participation and population aging are the main drivers of the participation rate decline in Canada



Box 1 | Decomposing the Post-Recession Decline in Labour Force Participation Rates in the United States and Canada

A decomposition of US and Canadian participation rates since 2008 (**Table B1, Chart 2A and Chart 2B**) shows the following:

1. Population aging is the key factor behind the decline in participation rates in both the United States (where it explains about 60 per cent) and Canada (where it explains more than 100 per cent).
2. Lower youth participation explains about 20 per cent of the decline for both the United States and Canada.
3. Prime-age participation fell in the United States, explaining about 30 per cent of the aggregate decline, whereas it has remained broadly stable in Canada.
4. In Canada, older workers have been increasing their labour force participation while, in the United States, their participation has been relatively stable since 2008. It is important to note, however, that the participation of older workers was increasing in the United States before 2008 and then stabilized at around 40 per cent. This level is higher than the current participation rate of older workers in Canada (38 per cent). Therefore, increasing participation of older workers might continue positively contributing to the overall dynamics of the participation rate in Canada.

respectively, in both countries. Population aging refers to the ongoing shift in the population distribution in both countries toward the oldest age bracket.

**Table B1: Decomposition of the Change in Participation Rates:
January 2008 to May 2017**

	Canada	United States
Participation Rate (January 2008)	67.6%	66.2%
Contribution from Youth Participation	-0.4 p.p.	-0.7 p.p.
Contribution from Prime-Age Participation	+0.3 p.p.	-1.0 p.p.
Contribution from Old-Age Participation	+1.0 p.p.	+0.2 p.p.
Contribution from Population Aging	-2.6 p.p.	-2.1 p.p.
Current Participation Rate (May 2017)	65.8%	62.7%
Change in Participation Rate	-1.8 p.p.	-3.5 p.p.

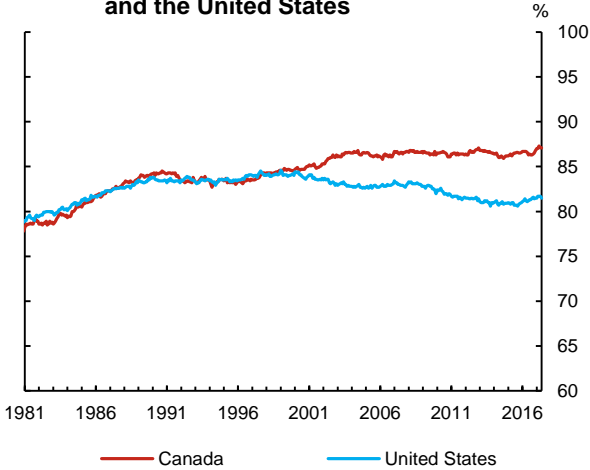
The larger fall in the United States reflects a large post-recession decline in its prime-age participation rate, whereas prime-age participation has remained relatively stable in Canada (**Chart 3**). The decline in US prime-age participation rate explains close to 30 per cent of the total decline in the US aggregate participation rate since 2008 (**Box 1**). In contrast, the prime-age participation rate in Canada is currently 0.5 p.p. higher than it was in the beginning of 2008, thus positively contributing to the dynamics of the Canadian participation rate.

- In the United States, a large decline in prime-age male participation explains almost 75 per cent of the observed post-recession decline in prime-age participation (**Chart 4**). In particular, male participation is currently 2.7 p.p. lower than its January 2008 level, while female participation is only 0.8 p.p. lower. As detailed by Council of Economic Advisors (2016), this decline in prime-age male participation continues a long-term trend that has been linked to a variety of factors.⁴
- In Canada, a higher level of prime-age participation relative to its pre-recession level is entirely driven by female participation, which is currently 1.2 p.p. above its level in January 2008 (**Chart 4**). This appears to be a continuation of a rising long-term trend in

⁴ Potential factors behind the long-term decline in prime-age male participation include (i) decreasing demand for low- and middle-skill labour as a result of technological advances and globalization; (ii) declining health status of prime-age males; and (iii) rising incarceration rate of males in the United States.

female participation.⁵ Prime-age male participation is currently 0.2 p.p. lower than its level in early 2008. In particular, it has declined by 1.5 p.p. between January 2008 and May 2014, but 85 per cent of that decline has already reversed. Like the United States, Canada has also experienced a long-term declining trend in male participation.

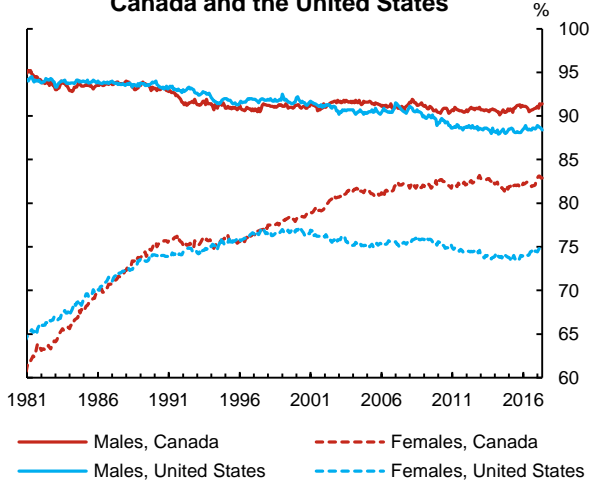
Chart 3: Prime-age participation rates in Canada and the United States



Sources: Labour Force Survey (Canada),
Current Population Survey (United States)

Last observation: May 2017

Chart 4: Prime-age participation by gender in Canada and the United States

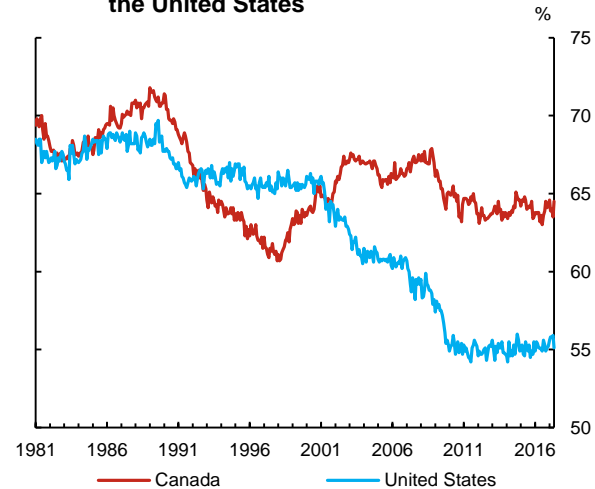


Sources: Labour Force Survey (Canada),
Current Population Survey (United States)

Last observation: May 2017

Both Canada and the United States experienced large declines in youth participation rates since 2008 (**Chart 5**). Namely, the youth participation rate declined by 2.6 p.p. in Canada and 4.4 p.p. in the United States since January 2008. These drops account for about 20 per cent of the decline in the total participation rate in both countries (**Box 1**).

Chart 5: Youth participation rates in Canada and the United States



Sources: Labour Force Survey (Canada),
Current Population Survey (United States)

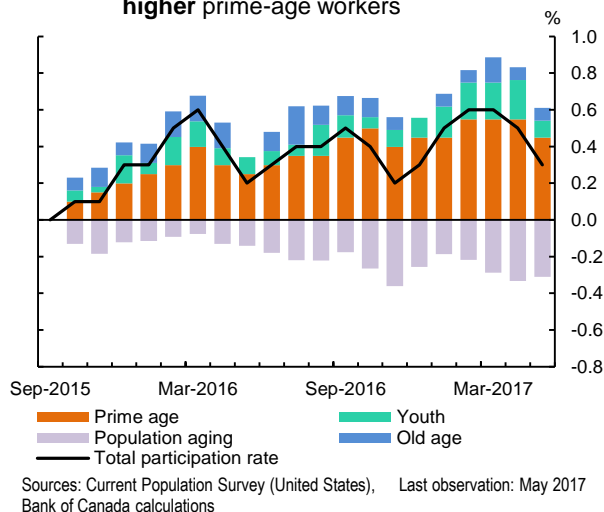
Last observation: May 2017

⁵ This trend has slowed since the mid-2000s. Despite this, prime-age female participation in Canada has outperformed that of the United States since the late 1990s. Blau and Kahn (2013) argue that weaker family-friendly policies (e.g., parental leave) in the United States explain its underperformance in female participation relative to other countries.

3. Decomposing the Recent Increase in the US Participation Rate—Implications for Canada

Since late 2015, the increase in the US participation rate has been largely driven by an increase in the prime-age participation rate (**Chart 6**). The US prime-age participation rate has increased by 0.9 p.p. since September 2015. The US youth participation rate has also increased since late 2015, by 0.6 p.p., and has contributed positively to the total increase in the US participation rate, albeit to a much lesser extent than prime-age participation given that youth represent a much lower share of the population (15 per cent versus 49 per cent for prime-age individuals).

Chart 6: The increase in US participation rate since September 2015 largely reflects higher prime-age workers



The recent pickup in US prime-age participation could reflect a cyclical correction following the downturn, supported by the rise in US aggregate demand. The US prime-age participation rate has now reversed about 30 per cent of its decline following the recession, with females reversing around 65 per cent of their drop and males reversing around 10 per cent. These reversals have occurred in the context of accommodative monetary policy in the United States. This experience could thus suggest that aggregate demand policies can effectively support a recovery in prime-age participation following a cyclical downturn.

Given that the Canada’s prime-age participation rate did not experience a decline similar to that observed in the United States, the scope for drawing more prime-age workers in the Canadian labour force is more limited than it is in the United States. Further developments in the Canadian participation rates are expected to be largely linked to structural rather than cyclical factors.⁶ This is also likely the case for male prime-age participation in Canada, which has already almost completely reversed their decline observed following the last recession.

⁶ Rising school enrolment is expected to provide a structural boost to prime-age participation, given that the participation rate of prime-age workers with a post-secondary education is around 10 p.p. higher than it is for less-educated individuals (in this article, school enrolment relates to enrolment in both secondary [i.e., high-school] and tertiary [i.e., post-secondary] education). However, this effect is relatively small and very slow moving. All else

4. Developments in Youth Participation Rates

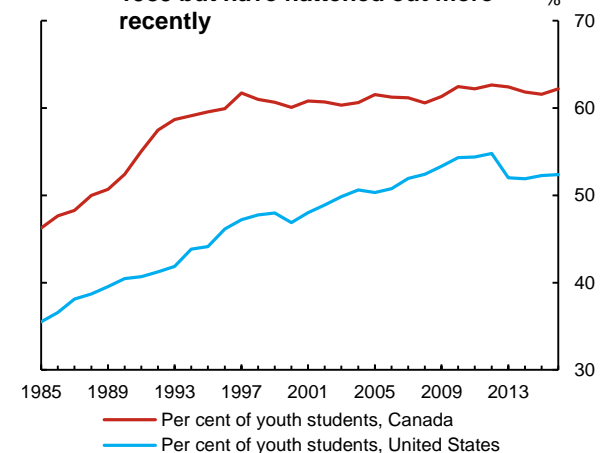
While it is not the key factor behind the recent increase in the US participation rate, US youth participation has also increased since late 2015. This section reviews post-recession dynamics in Canadian and US youth participation to evaluate whether the US experience suggests a further recovery in youth participation is likely in either country.

Post-Recession Dynamics in Youth Participation Rates

Rising school enrolment over the last several decades has been a key factor affecting the youth participation rate in Canada and the United States. The proportion of youth enrolled in school increased significantly since 1985 (**Chart 7**). This has resulted in lower youth labour force participation in both countries because enrolled youth have much lower participation rates than those who are not enrolled in school.

However, rising school enrolment only explains a small portion of the decline in Canada and US youth participation rates since 2008. School enrolment rates have flattened out in both Canada and the United States since 2008 (**Chart 7**).⁷ Consequently, increased school enrolment explains only 20 per cent of the youth participation rate decline in Canada and the United States. Instead, the post-recession decline in youth participation rates largely reflects lower participation rates for youth who are already enrolled as students.⁸ The participation rate of non-student youth has also declined in both countries, but this is not a significant factor in the decline in overall youth participation rates (**Chart 8** and **Chart 9**).

Chart 7: School enrolment rates have increased in Canada and the United States since 1985 but have flattened out more recently



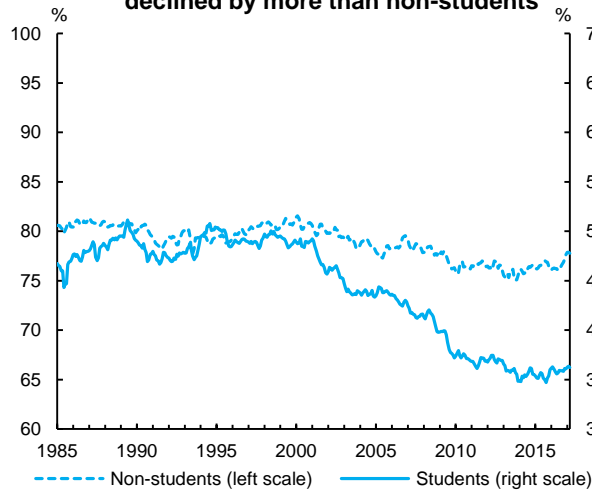
Sources: Labour Force Survey (Canada), Current Population Survey (United States) Last observation: 2016

equal, the 1.6 p.p. rise in Canadian youth school enrolment from 2008 to 2016 would lead to an increase in the participation rate of those cohorts by around only 0.2 p.p.

⁷ Moreover, the US enrolment rate actually declined in 2013. In an article for the US Bureau of Labor Statistics, Morisi (2017) highlights that the reason for this drop remains unclear but that researchers point to the high cost of college, concerns about student debt and a cyclical recovery in youth labour prospects as potential factors.

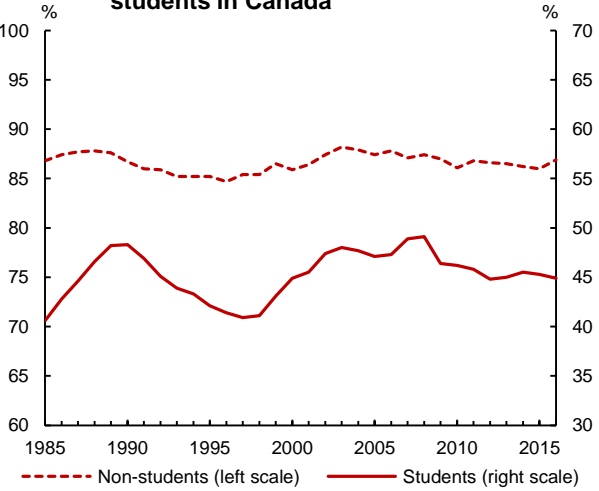
⁸ In the United States, this is due both to a lower fraction of students working during the summer and combining studies and work during the school year. For Canada, it is due to lower participation during the school year.

Chart 8: In the United States, the youth participation rate of students has declined by more than non-students



Source: Current Population Survey (United States) Last observation: May 2017

Chart 9: The participation rate of youth students has also declined by more than non-students in Canada



Source: Labour Force Survey (Canada) Last observation: 2016

Cyclical Versus Structural Factors and Future Prospects for Youth Participation Rates

It is important to understand whether the decline in the youth participation rates for students and non-students reflects cyclical or structural factors. The former could be linked to weak labour market conditions following the recession and would suggest that low youth participation remains a source of labour market slack. The latter could be linked to increased school engagement and/or changes in preferences and thus would not be indicative of slack.⁹

The US experience suggests that the post-recession decline in non-student participation largely reflected cyclical factors and that this source of slack has now mostly been absorbed. Participation of this group has been trending up since 2013 and is now close to its pre-recession level (**Chart 8**). The participation rate of non-student youth in Canada has also started recovering recently (**Chart 9**). In both countries, the participation rate of non-student youth is below its pre-recession level by 0.5 p.p. A further pick up of non-student participation in both countries thus appears likely.

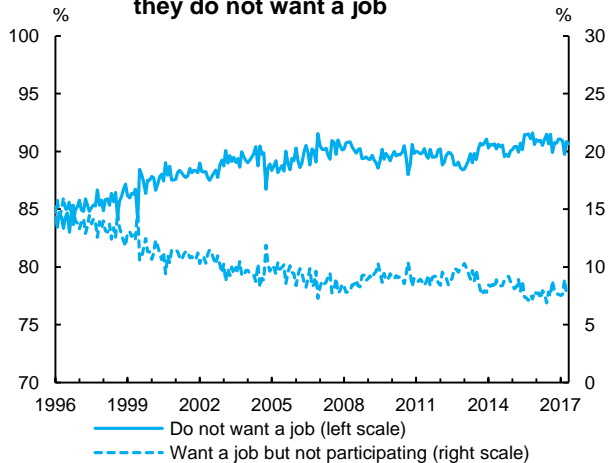
However, the decline in US student participation rate appears to be more structural and likely does not represent additional labour market slack. Survey responses indicate that the entire decline in US student participation is due to a rise in the share of students who report that they

⁹ For example, Aaronson et al. (2014) highlight that there has been an increase in the college earnings premium and return to skill more generally, which may have incentivized youth to place greater focus on their studies. In addition, Krueger (2016) discusses that the utility of leisure for youth may have increased, potentially as a result of better video game technology, which might have contributed to a downward shift in labour supply for both students and non-students.

do not want a job. This share has been trending up since the mid-1990s, suggesting the post-recession experience represents a continuation of a longer-term trend (**Chart 10**). Accordingly, even though the participation rate of student youth has increased slightly since late 2015, our view is that this development reflects fluctuations around a permanently lower trend.¹⁰

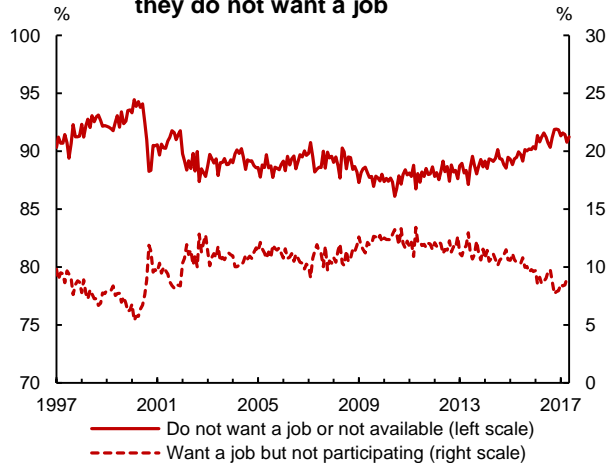
There is a stronger case that cyclical developments have reduced the student participation rate in Canada. The decline in student labour force participation in Canada happened immediately after the recession. Moreover, a similar decline was observed in the early 1990s, followed by an almost complete recovery (**Chart 9**). Finally, while the fraction of youth reporting that they do not want a job has recently increased, the rise only began after the recession following stable performance throughout the 2000s (**Chart 11**). A change in the trend after the recession suggests that cyclical factors might play a larger role. Therefore, there could be room for a greater pickup in Canada’s youth participation relative to that of the United States.

Chart 10: A rising share of non-participating United States student youth report that they do not want a job



Sources: Current Population Survey (United States), Bank of Canada calculations Last observation: May 2017

Chart 11: A rising share of non-participating Canadian student youth report that they do not want a job



Sources: Labour Force Survey (Canada), Bank of Canada calculations Last observation: May 2017

¹⁰ This is consistent with Aaronson et al. (2014), who also conclude the post-recession decline in US youth participation appears largely structural.

APPENDIX | Methodological Differences Between the United States and Canada

Key methodological differences between the United States and Canada on participation rates (namely, between the Labour Force Survey and the Current Population Survey) consist of the following.

1. The Canadian participation rate refers to those aged 15 and older, whereas in the United States only those 16 and older are included. This difference would result in a relatively lower Canadian participation.
2. Three groups of people are considered to be unemployed in Canada who are deemed to be not participating in the United States: (1) people looking for work using passive search methods (e.g., looked at job ads); (2) people reporting a job start in the following four weeks; and (3) people not available to work because of personal and family responsibilities or vacation. This difference would result in a relatively higher Canadian participation rate.
3. In Canada, full-time students reporting that they are looking for full-time work are deemed to be not participating, whereas these individuals are considered to be participating in the United States. This difference would result in a relatively lower Canadian participation rate.
4. In Canada, individuals do not require a minimum level of weekly hours of unpaid work to be considered as employed, while in the US individuals must meet a minimum threshold of 15 hours. This difference would result in a relatively higher Canadian participation rate.

After adjusting the Canadian participation rate to US concepts for differences 1 to 3, Bernard and Usalcas (2014) find that there was little difference between the levels of the adjusted and unadjusted Canadian participation rate from 2007 to 2013. This suggests that methodological differences are likely not a major factor behind the different post-recession dynamics in Canadian and US participation rates.

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