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Working Paper

Changing labour market participation since the Great Recession: A regional perspective

Bank of Canada Discussion Paper, No. 2015-2

Provided in Cooperation with:

Bank of Canada, Ottawa

Suggested Citation: Cheung, Calista; Granovsky, Dmitry; Velasco, Gabriella (2015) : Changing labour market participation since the Great Recession: A regional perspective, Bank of Canada Discussion Paper, No. 2015-2, Bank of Canada, Ottawa

This Version is available at:

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BANK OF CANADA
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Discussion Paper/Document d'analyse
2015-2

Changing Labour Market Participation Since the Great Recession: A Regional Perspective

by Calista Cheung, Dmitry Granovsky and Gabriella Velasco

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February 2015

Changing Labour Market Participation Since the Great Recession: A Regional Perspective

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Acknowledgements

The authors are grateful to David Amirault, Russell Barnett, André Binette, Marc-André Gosselin, Mikael Khan, Natalia Kyui, Laurent Martin, Sarah Miller, Stephen Murchison, Naveen Rai, Pierre St-Amant, and Olena Kostyshyna for very helpful comments and discussions that contributed to this paper. All errors and omissions are our own responsibility.

Abstract

This paper discusses broad trends in labour force participation and part-time employment across different age groups since the Great Recession and uses provincial data to identify changes related to population aging, cyclical effects and other factors. The main population age groups examined are youth (aged 15–24), prime age (25–54) and older (55 and above). Six main findings are reported. First, aging has been the most important driver of reduced participation. On their own, aging effects would have depressed participation rates by more than they fell between 2007 and 2014, and have been partly offset by rising participation rates of older workers. Second, shifting age composition has had the largest impact on the Atlantic provinces, owing primarily to their shrinking prime-age populations as some workers have migrated west. Third, a considerable part of the overall participation rate decline since 2007 reflects a greater share of prime-age and youth populations that are out of the labour force for various reasons including school, illness, and family responsibilities. These changes appear to be driven by both structural and cyclical forces, although the relative importance of each is unclear. Fourth, effects associated with “discouraged workers” have been negligible. Fifth, youth participation rates have fallen the most, by 2.8 percentage points since 2007, with 9 per cent of the decline reflecting purely higher school enrolment rates. Sixth, weak business conditions appear to be the main driver behind the shift toward part-time employment since the Great Recession, with involuntary part-time work explaining almost the entire increase since 2007.

JEL classification: E24, E32, J11, J21, J6

Bank classification: Labour markets; Recent economic and financial developments; Regional economic developments

Résumé

L'étude propose une analyse des grandes tendances que connaissent le taux d'activité et l'emploi à temps partiel chez les différents groupes d'âge depuis le début de la Grande Récession et distingue, à partir de données provinciales, l'influence du vieillissement démographique, d'effets cycliques et d'autres facteurs dans ces évolutions. Les jeunes (15-24 ans), les travailleurs dans la force de l'âge (25-54 ans) et les travailleurs âgés (55 ans et plus) forment les principaux groupes d'âge examinés. Six constats sont décrits. 1) Le vieillissement a été le facteur le plus important dans le recul du taux d'activité. À lui seul, il aurait induit une baisse plus prononcée du taux d'activité que celle enregistrée de 2007 à 2014 si la progression du taux d'activité chez les travailleurs âgés n'avait pas en partie neutralisé cet effet. 2) C'est dans les provinces de l'Atlantique que la

modification de la composition des groupes d'âge a les conséquences les plus marquées, qui s'expliquent surtout par la perte de travailleurs dans la force de l'âge au profit des provinces de l'Ouest. 3) Une part considérable du recul global du taux d'activité observé depuis 2007 est attribuable à la présence d'un nombre accru de 25-54 ans et de 15-24 ans hors des rangs de la population active pour des raisons diverses : études, maladie, charges familiales, etc. Seraient en cause des facteurs structurels et cycliques dont l'importance respective est toutefois difficile à discerner. 4) L'incidence des chercheurs d'emploi découragés a été négligeable. 5) C'est chez les jeunes que le taux d'activité a le plus diminué depuis 2007 (- 2,8 points de pourcentage), et une partie de ce repli (9 %) est imputable à la hausse du taux de fréquentation scolaire dans ce groupe d'âge. 6) La piètre situation économique semble justifier le mieux le glissement vers l'emploi à temps partiel qui s'observe depuis le début de la Grande Récession, le travail à temps partiel involontaire expliquant quasi entièrement l'augmentation de l'emploi à temps partiel depuis 2007.

Classification JEL : E24, E32, J1, J21, J6

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

1. Introduction

Since the Great Recession, Canada's labour force participation rate has declined by 1.5 percentage points, with wide variations in the patterns observed across different age groups and regions. To the extent that labour markets were in excess demand in 2007, part of this decline may represent a return to more sustainable levels. At the same time, part-time employment has increased as a share of total employment by 0.9 percentage points. This paper examines broad trends in labour force participation and part-time employment across the youth (aged 15–24), prime-age (aged 25–54) and older (aged 55 and above) populations since the Great Recession. Provincial data are used to help distinguish between changes attributable to aging, cyclical and other factors.

2. Decomposing Changes in Participation Rates

2.1 Impact of changing age structures

Overall for Canada, the average labour force participation rate in 2014 was 66.0 per cent, 1.5 percentage points (pp) lower than the average rate in 2007. Participation rates peaked in early 2008 at 67.7 per cent, and have declined on average every year since. Throughout this paper, 2007 is thus chosen as the pre-recession reference year before labour market conditions began to deteriorate.

Part of the decline since the Great Recession reflects the impact of population aging. Over the life cycle, labour force participation rates tend to peak as workers hit prime age (between 25 and 54) and then drop steeply as individuals pass the age of 55 (Figure 1). Since the early 2000s, the population share of individuals aged 55 and over began rising at a steeper pace with the aging of baby boomers (Figure 2). Furthermore, lower fertility rates have lowered the shares of youth (Figure 2), portending slower growth in the prime-age working population going forward. All else equal, these trends will put downward pressure on total participation rates. The Atlantic provinces and Quebec have the largest and most rapidly increasing shares of older population, as well as faster declines in the share of youth, whereas the Prairie provinces have been aging most slowly (Figure 2).

To quantify the impact that changes in the population age structure have had on overall participation rates since 2007, shift-share analysis is used to decompose the change since 2007 into: (i) the change in population shares for each age group holding participation rates constant at their 2007 values; (ii) the change in participation rates of each age group weighted by their 2007 population shares; and (iii) an interaction term that captures the joint effects of simultaneous changes in age structure and age-specific participation rates:

$$P_{2014} - P_{2007} = \sum_g (P_{2007}^g (S_{2014}^g - S_{2007}^g)) + S_{2007}^g (P_{2014}^g - P_{2007}^g) + (S_{2014}^g - S_{2007}^g) (P_{2014}^g - P_{2007}^g),$$

where P^g represents the participation rate and S^g the population share of each five-year age group g from age 15 to 69, with the final age group including all those aged 70 and above. Such shift-share

analysis reveals that the evolving age structure alone would have reduced the total participation rate from 67.4 per cent to 65.2 per cent in 2014, suggesting that **since 2007 demographic shifts alone would have lowered the participation rate by 2.2 percentage points relative to otherwise**. This decrease results primarily from the growing share of the elderly in the population, whose participation rates tend to be much lower than average.¹ This effect has been partly mitigated by rising participation rates among older workers (aged 55+) over this period. The latter effect has boosted the total participation rate 1.5 percentage points higher since 2007, all else equal.²

Participation rates of the 55+ age group began to trend up in the late 1990s and then more sharply since the early 2000s. These increases are consistent with health improvements and rising life expectancies at birth. They may also reflect the upward shift in participation rates of females born in the 1940s (Barnett 2007), assuming that these cohorts entering old age continued to participate at higher rates than the previous generations.³ Another small part of the rise in older worker participation rates since the early 2000s is attributable purely to shifts in age composition, with the first cohort of baby boomers turning 55 and boosting the weight of the 55–59 age group.⁴

Changes in participation rates since 2007 vary widely across provinces. Applying the same shift-share analysis at the provincial level, the impact of evolving age structures on provincial participation rates is shown by the yellow bars in Figure 3. It can be seen from Figure 3 that participation rates have declined the most in British Columbia and Ontario, where population aging can explain the majority of the decrease. The negative impact of shifting age structures has been greatest in the Atlantic provinces, and smallest in the Prairies. However, this pattern has little to do with changes in the older population, as Figure 4 illustrates that, since 2007, the populations over age 55 grew the fastest in Alberta and British Columbia.⁵ Rather, it is the shrinking prime-age populations in the Atlantic provinces that have contributed most to the downward pressure on their overall participation rates.⁶ By the same token, expanding prime-age populations have mitigated aging effects significantly in Alberta and Saskatchewan. These patterns likely reflect substantial interprovincial migration flows from eastern provinces to Alberta and Saskatchewan over the past decade, which have been most concentrated in the 20–29 age group (Willbond 2014).

¹ The downward pressure on overall participation rates from a growing elderly population is partly offset by the declining population share of youth, whose participation rates are also lower than average.

² This effect is derived by holding the participation rates for only the population segments below age 55 constant at their 2007 levels. In this counterfactual scenario, participation rates would have declined only 0.7 percentage points between 2007 and 2014, implying that rising older-worker participation has offset 1.5 percentage points of the total 2.2 percentage point decrease that would have resulted from shifting age structures.

³ According to Barnett (2007), employment rates showed rising tendencies for female cohorts born over the 1920s to the 1950s.

⁴ The 55–59 age group has the highest participation rates of the entire 55+ age group (see Figure 1).

⁵ Among all provinces, British Columbia and Alberta experienced the highest growth in births during the baby boom period. British Columbia is also a net recipient of interprovincial migrants over the age of 55.

⁶ The 25–54 age group has the highest participation rates of all the age groups. Although the youth populations have also contracted in the Atlantic provinces, this has a positive impact on overall participation rates given the lower-than-average participation rates of youth.

At the same time, older workers in the Atlantic provinces have increased their participation rates more than elsewhere in Canada since 2007. At the extreme, overall participation rates in Newfoundland and Labrador and Prince Edward Island have actually increased since 2007, as rising participation among older workers has outweighed the dampening effects of aging. For Newfoundland and Labrador, this increase probably reflects, in part, stronger overall job prospects related to the resource boom, as participation rates have increased across all age groups since 2007. Less clear, meanwhile, is what has driven the relative increase in older workers' participation rates in other Atlantic provinces.⁷ One potential reason is that persistently weak income growth in these regions has led older workers to stay in the workforce longer, perhaps facilitated by the greater supply of service sector jobs made available as younger workers have migrated to Western Canada.

2.2 The importance of cyclical and other factors varies by age group

Changes in participation rates since the Great Recession also vary widely by age group. While participation rates of older workers have risen since 2007 across all provinces, they have generally declined for younger age groups in all provinces west of Quebec (with the exception of Saskatchewan), as shown in Figure 5. This pattern seems to hold for both males and females. Declines are larger for the youth population compared with the prime-age working population.

Meanwhile, prime-age participation rates have actually increased in New Brunswick, Prince Edward Island, and Newfoundland and Labrador since the Great Recession (Figure 5), perhaps linked to population shrinking as workers migrated to Western Canada over the past several years.⁸ This would have boosted participation rates in these provinces as non-participants moved out, and/or departing workers' job vacancies eventually allowed non-participants to enter the workforce. However, if migrants moved for better employment prospects, it is not clear why prime-age participation rates decreased in Alberta and Saskatchewan over this period. To the extent that labour markets were in excess demand before the Great Recession – prime-age participation rates in Alberta and Saskatchewan hit record highs in 2007 – part of these declines may reflect simply a return toward more sustainable rates of participation.

On average for Canada, youth participation rates are 2.8 percentage points below 2007 levels, while prime-age participation rates are 0.4 percentage points lower in 2014. Provinces where prime-age unemployment rates increased more between 2007 and 2012 tended to see greater drops in their participation rates between 2009 and 2014, although excluding Newfoundland and Labrador weakens

⁷ This pattern cannot be explained by relative weights of the 55–59 age segment in the overall 55+ age group across provinces.

⁸ On balance, Newfoundland and Labrador had a net outflow of interprovincial migrants over the 2007–14 period, despite the fact that it had net inflows from 2009 to 2012. Alberta was the primary destination of migrants from Newfoundland and Labrador.

this relationship considerably (Figure 6). Meanwhile, no similar relationship is observed between participation rates and unemployment rates for youth over this period (Figure 6).

Among working-age individuals that are not in the labour force, over 95 per cent identify as “did not want work or not available” according to Statistics Canada’s Labour Force Survey (LFS). This share has remained relatively steady since 1997, when the data first became available, although individuals aged 55+ have accounted for a growing proportion of this group since 2008 (Figure 7). The remainder that “*wanted work*” grew from 4.4 per cent of the non-participating population in 2007 to peak at 5.4 per cent in 2010, and has since diminished to about 4.7 per cent (Figure 8), or roughly 458,000 people.

Among those that did not seek employment but “*wanted work*,” the LFS includes several potential reasons for non-participation, including illness, personal/family responsibilities, school, awaiting recall, and discouraged. Assuming that the latter two categories follow the economic cycle, such “*cyclical non-participants*” account for a very small fraction of the population (0.3 per cent of youth, 0.2 per cent of the prime-age population, and 0.1 per cent of the older population, on average, for 2014). For each of these age groups, the share of cyclical non-participants increased considerably over the 2008–10 period (Figure 9). While they have now fallen back to 2007 levels for the prime-age and older populations, the share remains elevated among youth. However, youth not in the labour force for cyclical reasons account for less than 0.1 of the 2.8 percentage point decline in the youth participation rate since 2007. Including all those in the “*wanted work*” categories would account for 0.2 percentage points of the decline in the youth participation rate since 2007 (Figure 10).

2.2.1 Youth (Population aged 15–24)

Among non-participating youth that “*wanted work*,” school is the most important reason for staying out of the labour force. Although such students account for only 6 per cent of non-participating youth, school is probably a key factor for the much larger 90 per cent of non-participating youth that report *not wanting work*. The share of youth that “*did not want work*” increased by 1.8 percentage points from 2007–14, and appears to be correlated with youth rates of school enrolment over time (Figure 11). The share of youth pursuing studies increased by 0.7 percentage points from 2007 to 2014. Unsurprisingly, the decision to further education appears moderately correlated with labour market conditions over the past two decades: across provinces, higher rates of youth unemployment are associated with higher rates of study (Figure 13).

Students account for over 60 per cent of the youth population, and their participation rates tend to be roughly half of that for non-students. Meanwhile, youth that are not studying tend to participate in the labour force at similar rates as the prime-age working population. Figure 12 shows that whereas participation rates for non-students slipped by 0.9 percentage points from 2007 to 2014, they dropped four times more for students, by 3.4 percentage points over this period. This decline for students may reflect weak labour market conditions, while the decrease for non-students continues a trend that began in the early 2000s. If the participation rates of students and non-students had remained unchanged from their 2007 levels, the increasing rates of schooling alone would have reduced youth

participation rates by 0.3 percentage points by 2014. This suggests that **around 9 per cent of the reduction in youth participation rates since 2007 reflects purely increased rates of schooling**. This part of the decline is not necessarily a concern if the higher school enrolments mean that a greater share of youth will be more employable and productive upon completing their studies, though it could also reflect a perception that a higher level of education is required to secure a given job type.

2.2.2 Prime-age population (aged 25–54)

For the prime-age population, growth in non-participants that “wanted work” accounts for roughly half of the 0.4 percentage point decrease in the participation rate since 2007.⁹ Among this latter group, the share of “cyclical non-participants” (i.e., awaiting recall or discouraged) is now back to pre-recession levels, but non-participation for all other reasons remains higher (Figure 14). In particular, non-participation for “personal/family responsibilities” has trended up as a share of the prime-age population since 2007.¹⁰

Non-participation for “illness” reasons also trended higher for the prime-age population over the late 2000s (Figure 14). Though it may be related to aging within the prime-age population, some of this increase may be cyclical to the extent that economic downturns tend to depress employment disproportionately for persons with a disability. Changes in participation rates due to sickness or disability have been found to move with the economic cycle over time in the United States and many OECD countries to varying degrees, in part related to the ease with which disability benefits can be accessed as a substitute for unemployment insurance (OECD 2010). Figure 15 reveals that across provinces, higher rates of unemployment are associated with higher rates of non-participation due to illness, personal/family responsibilities, and other reasons, including no desire to work. However, these relationships do not always hold *within* each individual province, depending on the reason for non-participation, perhaps due to other factors at play. This suggests that **while some of the 0.4 percentage point decline in prime-age participation rate may be cyclical, a considerable portion is likely to be structural**.

⁹ The increase in prime-age non-participants that “did not want work” occurred entirely in 2014, and had actually been on a declining trend until 2013. This spike in 2014 (equivalent to 0.4 per cent of the population aged 25–54) was dominated by females. As argued by DePratto (2014), the fall in female participation rates over the past year may reflect employment cuts in female-dominated industries in late 2013 and perhaps a pickup in immigration rates of women aged 40–49 (since recent immigrants tend to have lower participation rates than the native-born population).

¹⁰ Although this could reflect more workers leaving the labour force to care for aging parents, across provinces there is no clear relationship between changes in this series and the share of elderly people in the population. Alternatively, the increase could be cyclical if parents with young children are opting to delay returning to the workforce because weaker job prospects lower the opportunity cost of childminding relative to the costs of external care.

3. Shift to Part-Time Work

Since the Great Recession, the share of part-time work has increased from 18.4 per cent of total employment in 2007 to peak at 19.6 per cent in 2010, and has since come down to 19.3 per cent in 2014. Prior to the recession, the share of part-time in total employment had fluctuated around a fairly stable average of 18.8 per cent since 1993.¹¹ Part-time work is most prevalent among youth, accounting for 40–50 per cent of youth employment, on average. The share of part-time employment is much lower for prime-age (around 12 per cent) and older workers (about 23 per cent). Shifting age structures account for very little of the increase in part-time employment since 2007, as the impact from an expanding older population (who have slightly higher-than-average rates of part-time employment) is mostly offset by the effect of fewer youth in the population mix.

The LFS reports various reasons for working part-time depending on whether it is voluntary or involuntary, as described in Table 1. For all age groups, the majority of part-time work is voluntary: for youth, school is by far the primary reason cited for not wanting full-time work, whereas “personal preference” is the main reason for prime-age and older workers, and to a lesser extent “caring for children” for prime-age workers.

Since the Great Recession, the shift toward part-time employment has been most noteworthy among youth: the share of employed youth working part-time has risen by 4.5 percentage points, versus only 0.3 percentage points for prime-age workers, and 0.6 percentage points for older workers (Table 1). This shift for youth appears unrelated to higher rates of schooling, since it is non-students who account for the increase in part-time employment rates. **For all age groups, involuntary part-time work accounts for virtually all of the increase in the share of part-time employment** (Figure 16). As a whole for the total working-age population, involuntary part-time work has risen by 1.2 percentage points since 2007 to 5.2 per cent of total employment in 2014.

4. Conclusions

This paper examines broad trends in labour force participation and part-time employment across different age groups since the Great Recession and uses provincial data to identify changes related to population aging, cyclical effects and other factors. A main finding is that aging has been the most important driver of reduced participation. On their own, aging effects would have depressed participation rates by more than they fell between 2007 and 2014, and have been partly offset by rising participation rates of older workers. Shifting age composition has had the largest impact on the Atlantic provinces, owing primarily to their shrinking prime-age populations as some workers have migrated west. A considerable part of the overall participation rate decline since 2007 reflects a greater share of

¹¹ This stabilization followed almost two decades of trending up from a level of 13 per cent in 1976. Much of this upward trend from 1976 to 1992 was attributable to a 22 percentage point increase in the rate of part-time employment among youth, which accompanied a 14 percentage point rise in the share of youth pursuing education.

prime-age and youth populations that are out of the labour force for various reasons including school, illness, and family responsibilities. These changes appear to be driven by both structural and cyclical forces, although the relative importance of each is unclear. Youth participation rates have fallen the most, by 2.8 percentage points since 2007, with 9 per cent of the decline reflecting purely higher school enrolment rates. Although “discouraged worker” effects on participation rates have been negligible, weak business conditions appear to be the main driver behind the shift toward part-time employment since the Great Recession, with involuntary part-time work explaining almost the entire increase since 2007.

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Figure 1. Participation rates over the life cycle (%)

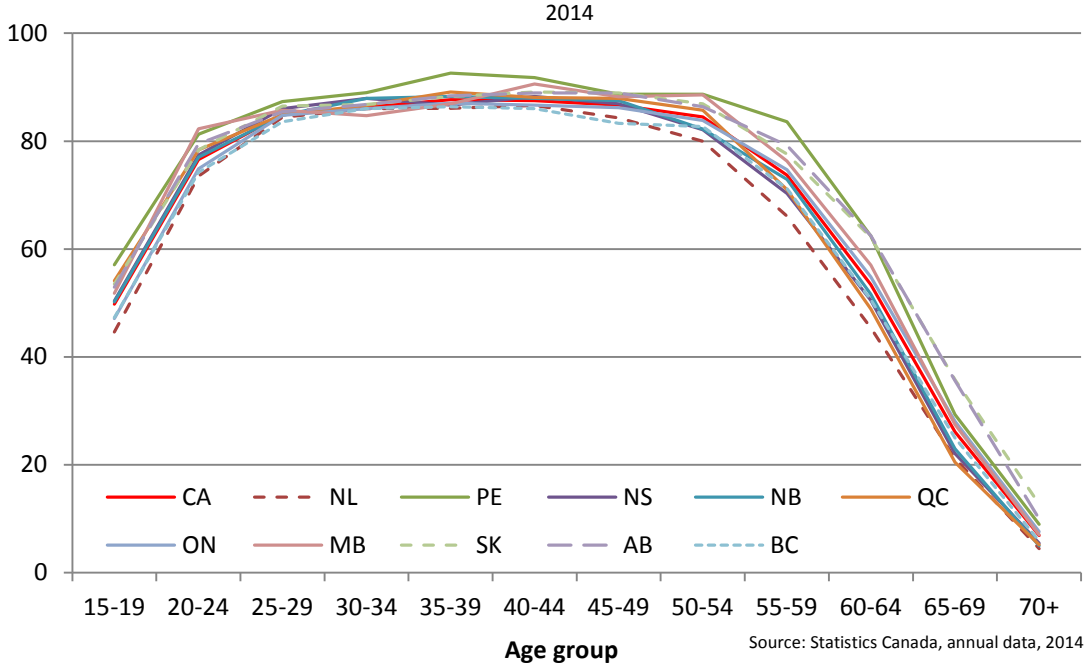


Figure 2. Population aging across provinces

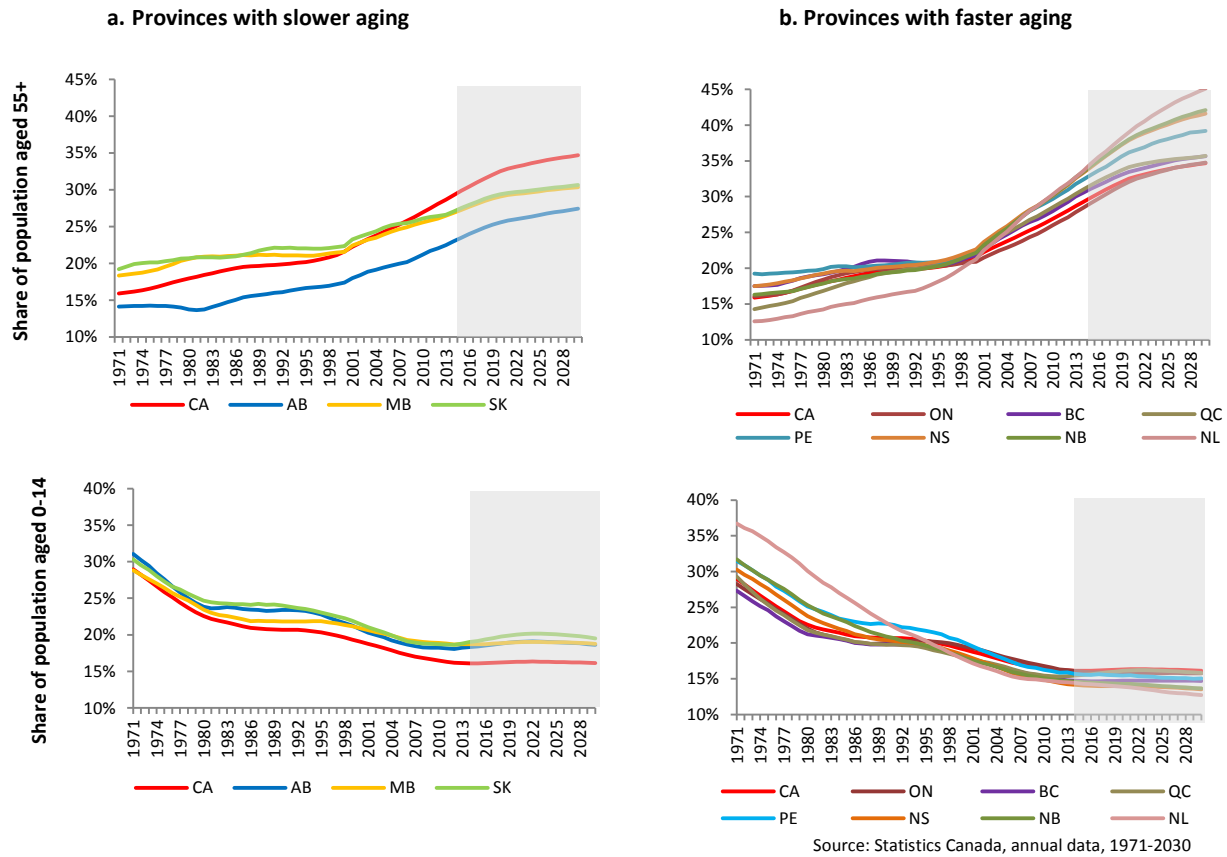
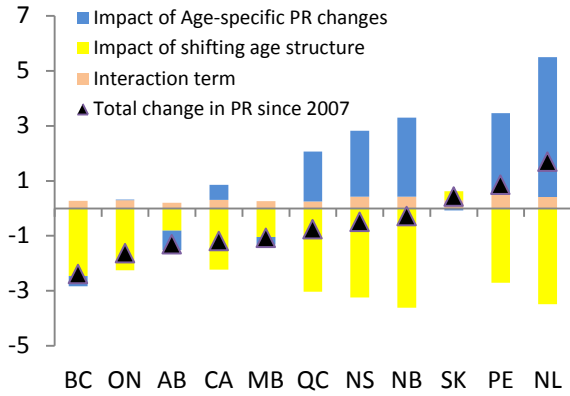
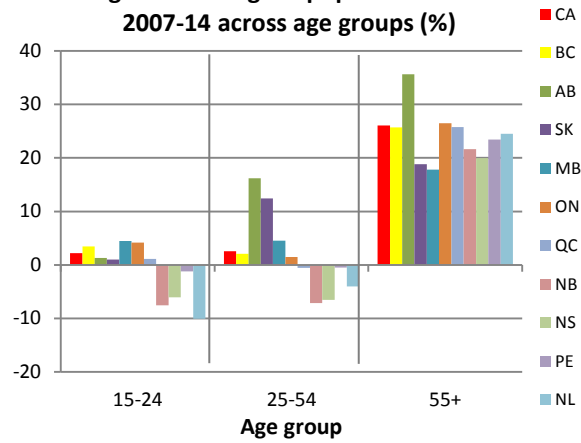


Figure 3. Decomposing the change in participation rate (PR) since 2007 (pp)



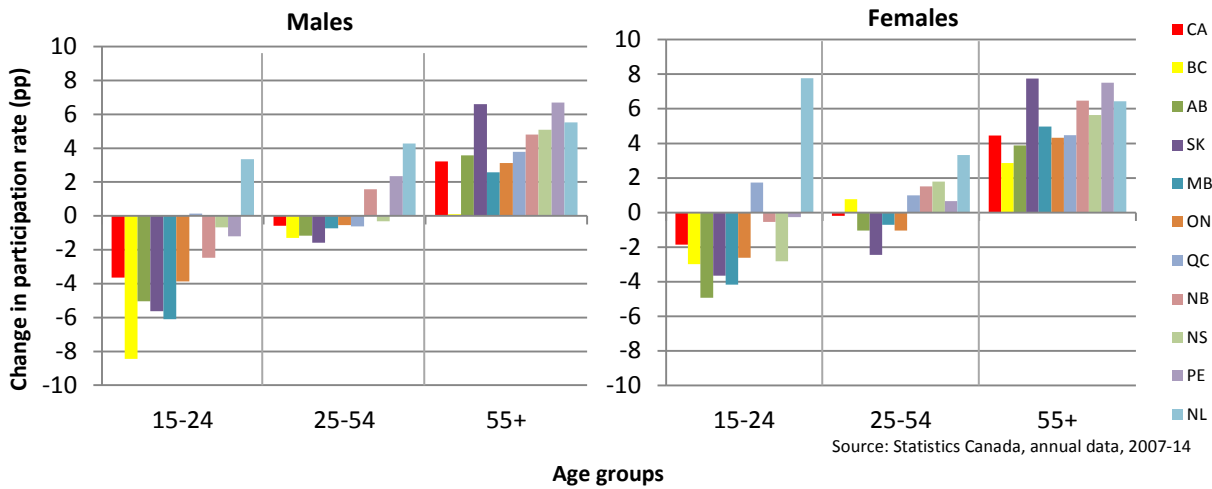
Sources: Statistics Canada, annual data, 2007-14; Bank of Canada calculations

Figure 4. Change in population from 2007-14 across age groups (%)



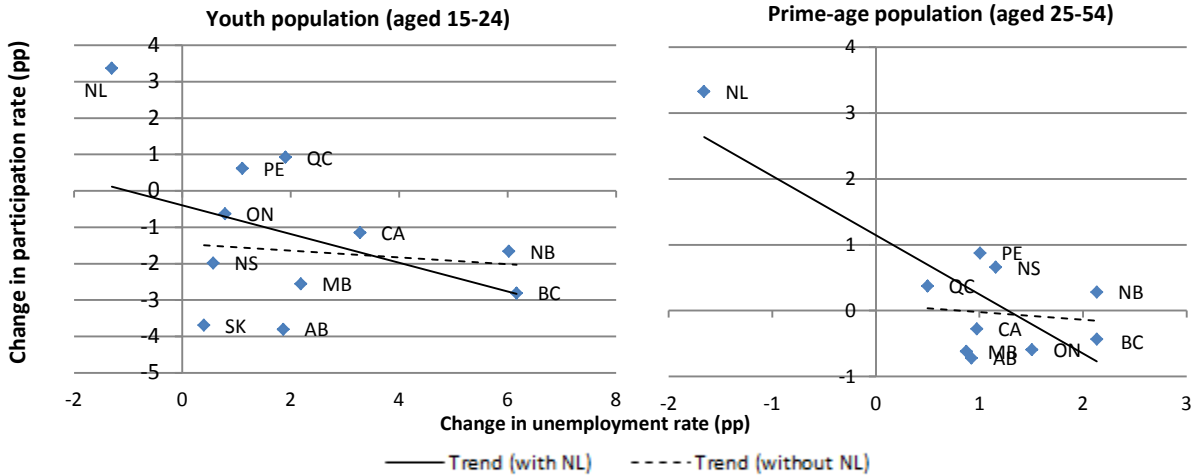
Source: Statistics Canada, annual data, 2007-14

Figure 5. Change in participation rates from 2007-14 across age groups (pp)



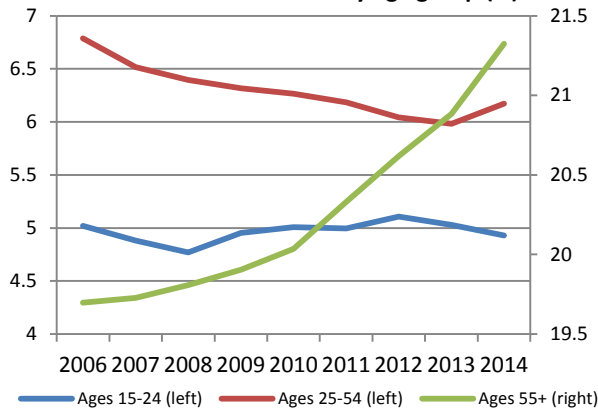
Source: Statistics Canada, annual data, 2007-14

Figure 6. Changes in participation rates (2009-14) vs. unemployment rates (2007-12)



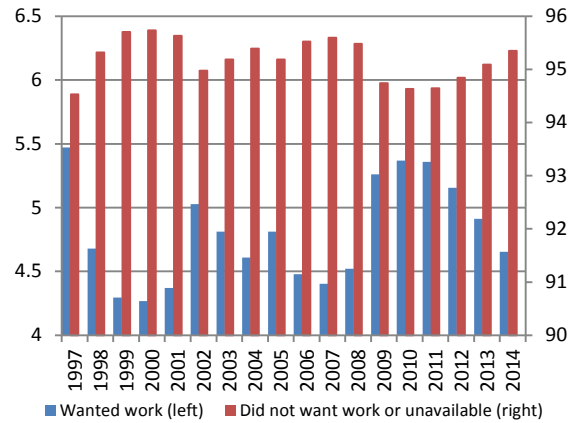
Source: Statistics Canada, annual data, 2007-14

Figure 7. Share of working-age population that did not want work by age group (%)



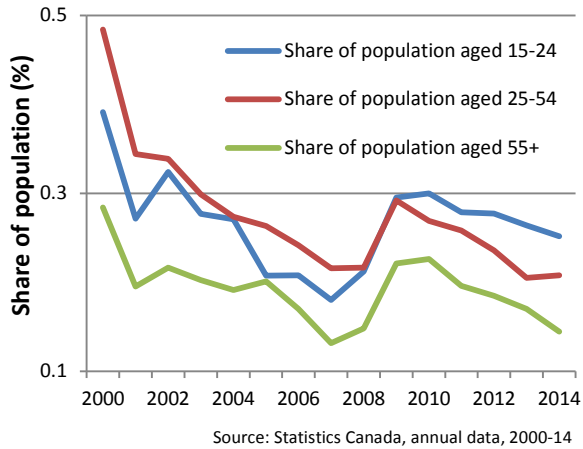
Source: Statistics Canada, annual data, 2006-14

Figure 8. Share of working-age population not in the labour force (%)



Source: Statistics Canada, annual data, 1997-2014

Figure 9. Share of population not in the labour force for cyclical reasons



Source: Statistics Canada, annual data, 2000-14

Figure 10. Youth that wanted work: Reasons for non-participation

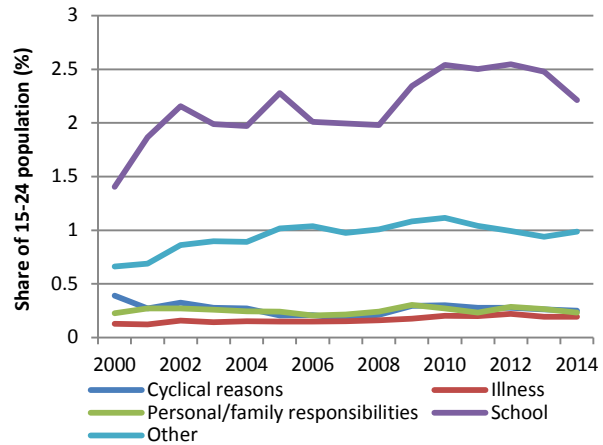
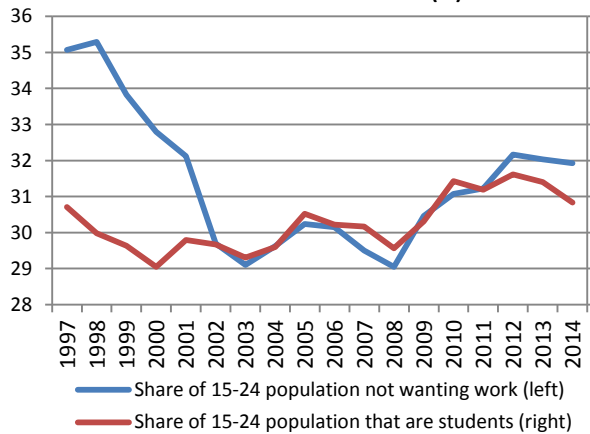
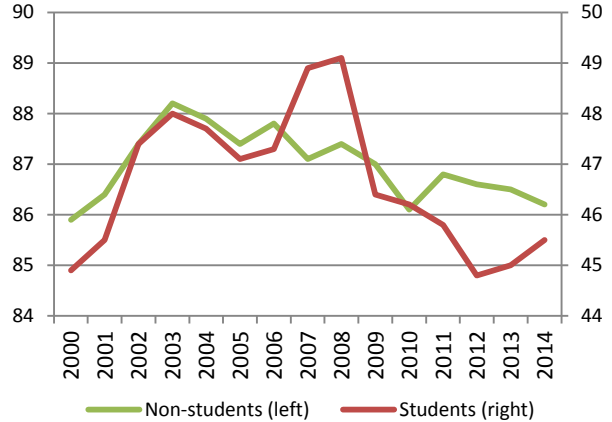


Figure 11. Youth population: Share not wanting work vs. share of students (%)



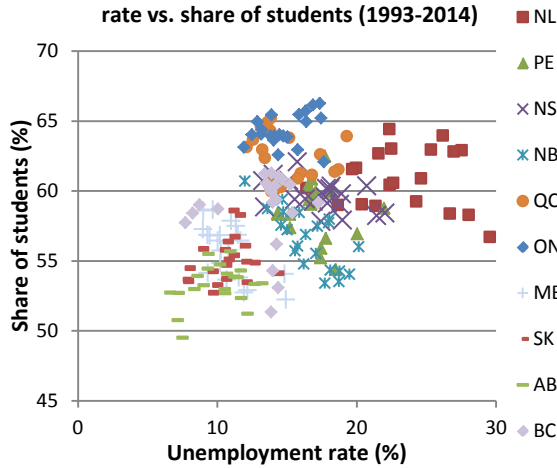
Source: Statistics Canada, annual data, 2000-14

Figure 12. Participation rates of youth population: students vs. non-students (%)



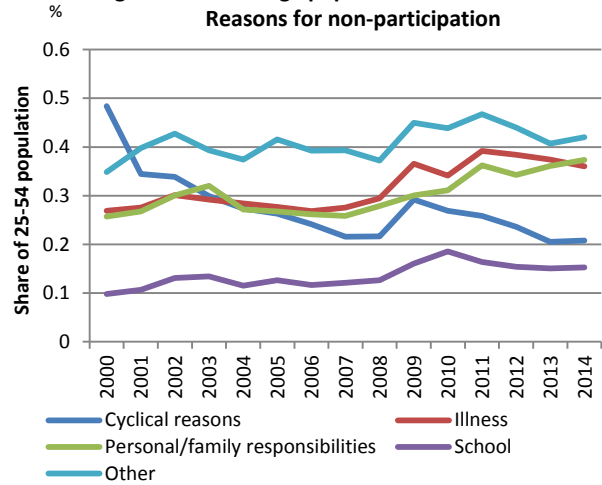
Source: Statistics Canada, annual data, 2000-14

Figure 13. Youth population: Unemployment rate vs. share of students (1993-2014)



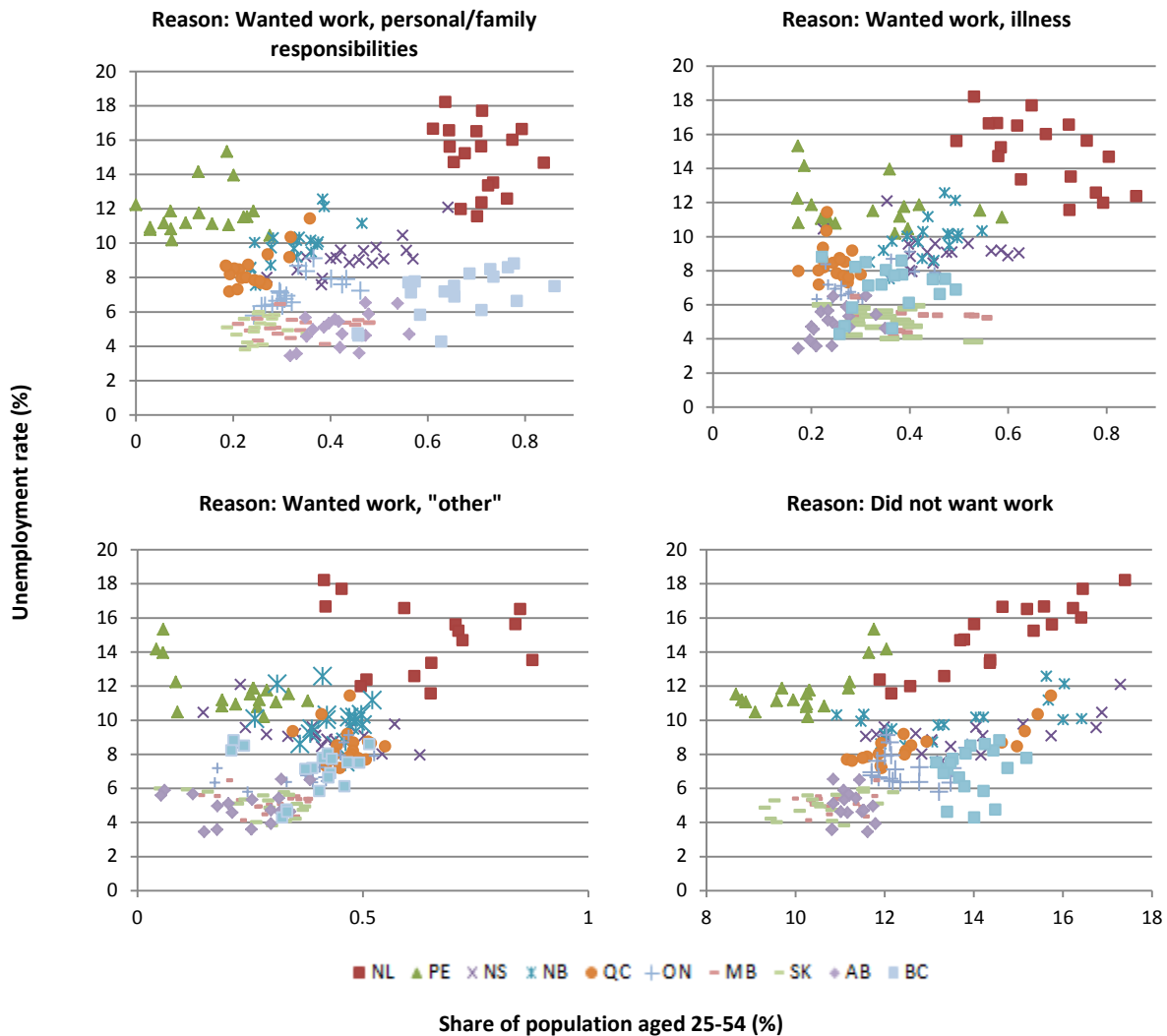
Source: Statistics Canada, annual data, 1993-2014

Figure 14. Prime-age population that wanted work: Reasons for non-participation



Source: Statistics Canada, annual data, 2000-14

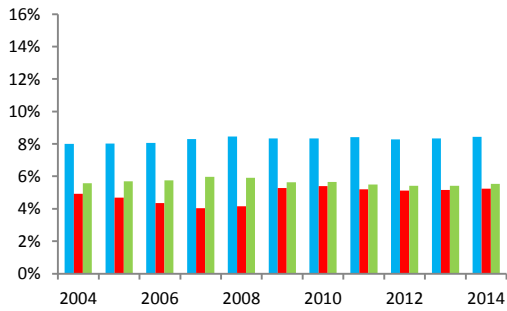
Figure 15. Prime-age population: Share not in the labour force by reason (1997-2014)



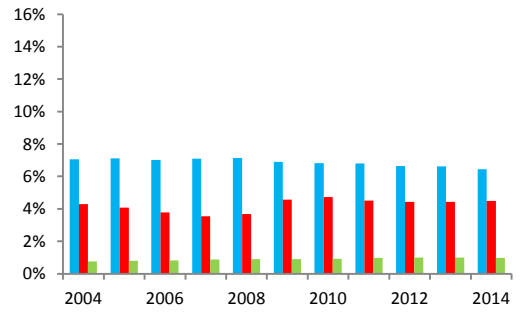
Source: Statistics Canada, annual data, 1997-2014

Figure 16. Share of part-time employment by reason (%)

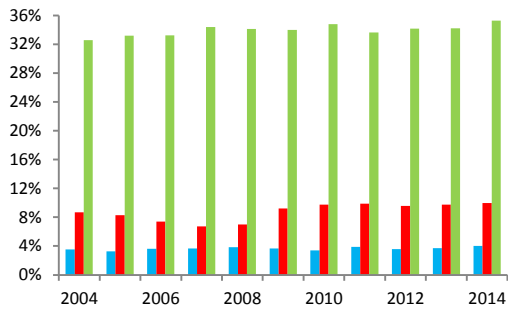
a. Working-age population (Age 15+)



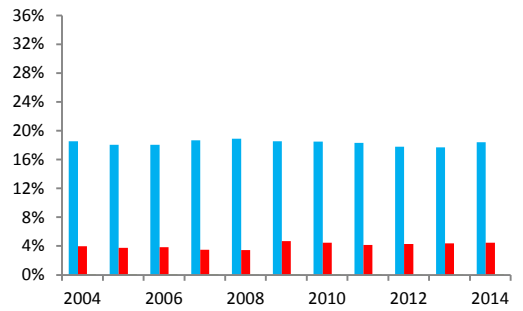
b. Prime-age working population (Age 25-54)



d. Older workers (Age 55+)



c. Youth population (Age 15-24)



■ Voluntary part-time employment ■ Involuntary part-time employment ■ Going to school

Source: Statistics Canada, annual data, 2004-14

Table 1. Part-time employment breakdown

		Working-age population (Age 15+)		Youth population (Age 15-24)		Prime-age working population (Age 25-54)		Older workers (Age 55+)	
		2007	2014	2007	2014	2007	2014	2007	2014
Share of part-time work in total employment		18.4%	19.2%	44.8%	49.3%	11.6%	11.9%	22.3%	22.9%
Reasons for working part-time as share of total part-time work									
Voluntary	Caring for children	10.7%	8.6%	0.9%	0.7%	23.2%	19.6%	1.0%	0.8%
	Other personal or family responsibilities	2.8%	2.7%	0.5%	0.5%	4.7%	4.3%	3.2%	3.1%
	Personal preference	27.6%	27.2%	5.7%	5.2%	27.9%	22.4%	72.8%	68.9%
	Other voluntary	0.8%	1.9%	0.4%	1.1%	1.2%	2.8%	0.7%	1.5%
	Own illness	3.4%	3.6%	0.6%	0.6%	4.7%	5.0%	6.2%	5.9%
	Going to school	32.6%	28.8%	76.8%	71.6%	7.6%	8.2%	0.4%	0.4%
Total voluntary as share of part-time workers		77.9%	72.8%	84.9%	79.7%	69.3%	62.3%	84.3%	80.6%
Involuntary	Business conditions, looked for full-time work in past month	3.8%	6.0%	3.0%	4.9%	5.3%	8.5%	1.9%	3.0%
	Business conditions, did not look for full-time work in past month	12.5%	13.7%	7.8%	9.2%	17.4%	18.7%	10.4%	11.5%
	Could not find full-time work, looked for full-time work in past month	2.5%	3.5%	2.0%	2.9%	3.4%	4.9%	1.2%	1.9%
	Could not find full-time work, did not look for full-time work in past month	3.3%	4.1%	2.3%	3.3%	4.6%	5.6%	2.2%	2.9%
	Total involuntary as share of part-time workers	22.1%	27.3%	15.1%	20.3%	30.7%	37.7%	15.7%	19.3%

Source: Statistics Canada, annual data, 2007-14