

## FOCUS · The impact of demographics on the labour market: tackling the challenge

Demographics are often put forward as one of the factors that will hinder growth in the euro area. One particular source of concern is the working age population: in the euro area this began shrinking in 2010 and has fallen annually by 0.16% on average in the last five years.

The euro area's population grew from 332 million in 2010 to 335 million in 2015. Nevertheless, demographic projections suggest that, without any positive net migration flows, it will have decreased slightly to 333 million by 2020.<sup>1</sup> The trend will not be the same for all age groups, however. The number of people of working age, i.e. between 15 and 64, will shrink faster: decreasing annually by 0.3% between 2015 and 2020 on average. This will significantly reduce the share of working age population in just five years, from 65.1% to 63.5%. This reduction in working age population is expected to be widespread across all euro area countries. This phenomenon is worrisome because, alongside other issues it could hamper growth without any compensatory increase in productivity, migration flows or participation rates.

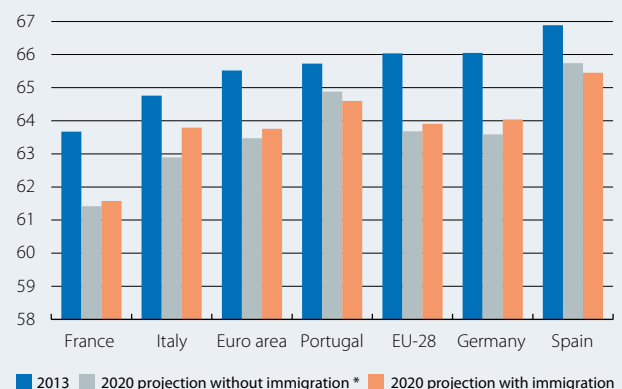
According to European Commission projections, migration flows could bolster the euro area's total working age population by 1.6% between 2015 and 2020. There are important differences between countries, however. Net outflows of immigrants from some countries might even reduce their working age populations further, such as in Spain (–1.6%) and Portugal (–1.4%). On the other hand, immigration is expected to increase by +2.5% in Germany and +4.6% in Italy. Nevertheless migration flows are characteristically uncertain as they can alter rapidly due to both economic and geopolitical factors.

The potential contribution of a higher participation rate should also be taken into account. 72.5% of the working age population (around 158 million people) were employed or looking for employment in 2015. A 1.0 pp increase in the participation rate between 2015 and 2020, up to 73.5%, would keep the labour force constant (see the second graph).<sup>2</sup> In fact, the European Commission forecasts a 73.6% participation rate for the euro area as a whole by 2020, which would point to a slight increase in the labour force. Women of all ages and workers aged between 55 and 64 will increase their participation rate the most, up to 68.7% (+2.5 pps) and 63.3% (+8.5 pps)

respectively. But their participation rate could go even higher, given the rates of male workers (78.5% in 2020) and people aged between 25 and 54 (86.1%). There are also big differences between countries in this respect, so there will still be ample room to improve the participation rate in some cases. For example, historically it has been difficult for women to balance work and family in Italy and the country's female participation rate is expected to remain low, namely 56.6% in 2020. On the other hand, France's low participation rate among people aged over 54 will continue, projected at 55.4% in 2020, due to their earlier exit from the labour market than their European peers.

### Working age population

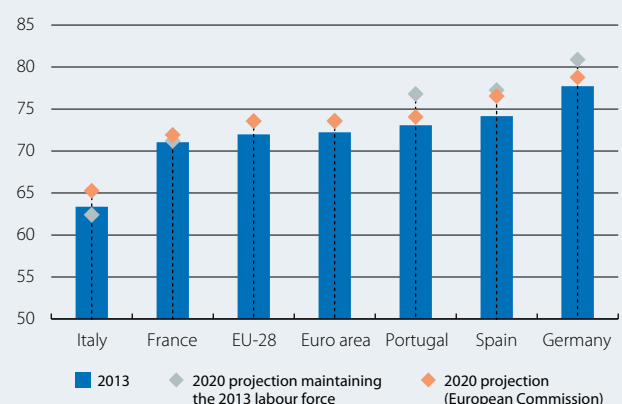
(% of total population)



**Note:** \* The projection without immigration assumes zero net international migration flows.  
**Source:** CaixaBank Research, based on data from the European Commission.

### Labour participation rate

Labour force (% of population aged 15 to 64)



**Note:** The European Commission's population projections correspond to EUROPOP2013, which uses 2013 as the base year.

**Source:** CaixaBank Research, based on data from the European Commission.

1. All the projections stated in this article have been calculated based on the European Commission's forecasts in «The 2015 Ageing Report», which uses the population projections provided by Eurostat EUROPOP2013.

2. Including the contribution of immigration.