

## FOCUS · Spain's labour force: ageing and educational level

In spite of the large number of jobs created in the past three years, the labour force is still shrinking. Specifically, between Q1 2014 and Q1 2017 the labour force<sup>1</sup> decreased by 190,600 people. The working age population (over 16) increased by 121,000 people over the same period, so this reduction in the labour force is due entirely to a drop in the activity rate, which stood at 58.8% in Q1 2017, 0.6 pp lower than in Q1 2014.<sup>2</sup> This reduction, as we will see below, is mainly due to the ageing of Spain's population.

In general, the trend in the activity rate related to age takes the form of an inverted U: the share of young people that participates in the labor market is relatively low because it coincides with training and education, participation in the labor market increases gradually with age and reaches a peak between the ages of 35 and 45, then falling sharply again as people approach retirement age. Spain's ageing population has therefore lowered the activity rate.<sup>3</sup> In fact, if we calculate the activity rate specifically for the population aged between 16 and 64, in other words without taking into account those people who have passed retirement age, it can be seen that this has remained constant at 75%, highlighting the fact that the reduction in the labour force is due to a drop in the working age population.

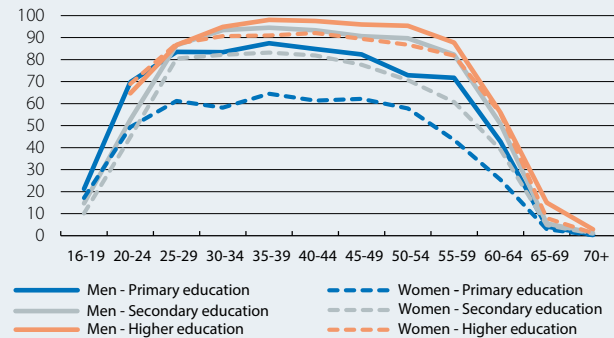
There is a sharper rate of decline in the activity rate by age among those with a lower level of education. People with higher qualifications who, at first, delay their entry into the labour market, record higher activity rates for the rest of their working lives and tend to delay their exit from the labour market (see the first chart). The higher educational level of Spain's new generations is helping to offset the fall in the labour force due to the ageing population. The second chart shows that the reduction in the labour force is more concentrated in the population with only a primary level education (-531,000). On the other hand, the labour force with secondary and university qualifications has grown over the same period, by 310,000 and 139,000 people, respectively.

The projections available<sup>4</sup> point to the labour force continuing to shrink as a larger number of people reach retirement age. Although part of this reduction will be offset by the higher educational level of new generations

and the associated higher activity rate, this will not be enough. The labour force is expected to decrease by 1.7 million between 2016 and 2029 and the activity rate to decline to 53.8% by 2029. In summary, the ageing population is one of the biggest challenges facing the Spanish economy in the medium term and, within this context, policies aimed at encouraging older workers to continue working could help to slow down the decline in the labour force.

### Activity rate by educational level,\* age and gender

(% of workers out of the total population of people aged 16 and over)

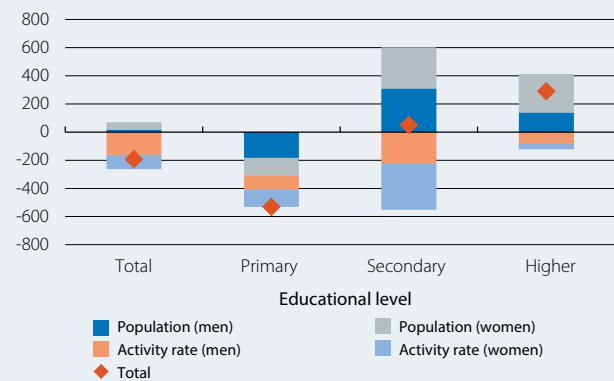


Note: \* Highest educational level achieved. Data from Q1 2017.

Source: CaixaBank Research, based on data from the INE (LFS).

### Breakdown of the change in the labour force by educational level

Change between Q1 2014 and Q1 2017 (thousands)



Note: For each educational level, the change in the labour force between Q1 2014 and Q1 2017 is broken down into two factors: the change in the population aged 16 and over and the change in the activity rate. This has been calculated separately for men and women.

Source: CaixaBank Research, based on data from the INE (LFS).

1. The labour force consists of employed and unemployed people aged 16 and over.
2. The activity rate measures the percentage of the labour force compared with the whole population aged 16 and over.
3. Between Q1 2014 and Q1 2017, the percentage of the population aged over 50 (the age at which the activity rate tends to start falling) increased by 2 pp, reaching 39% of the total.
4. Projected activity rates 2016-2029 (INE).