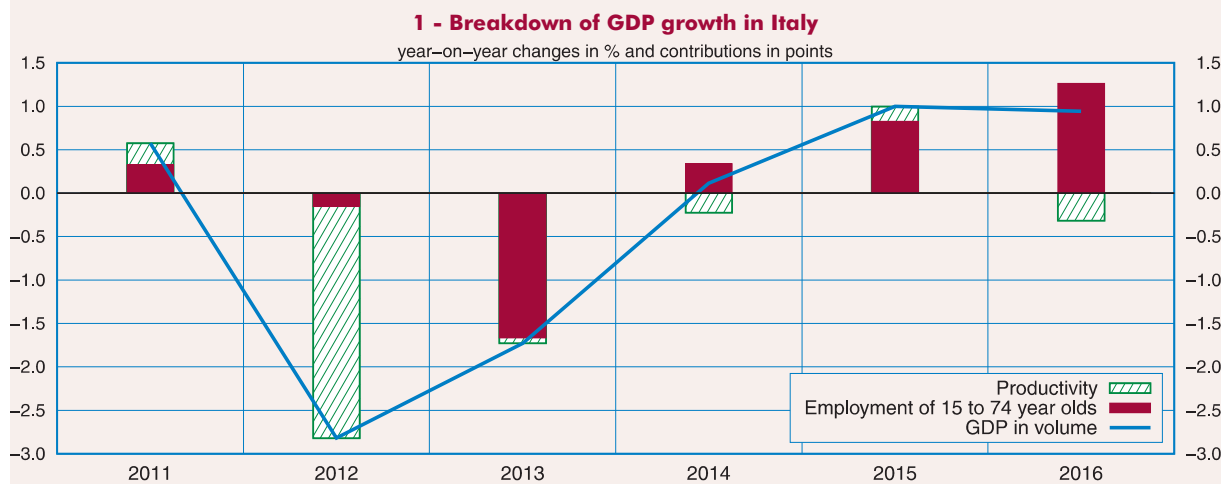


Pension reform has boosted the labour force participation rate in Italy

In Italy, the recovery has been accompanied by strong job creation in a context of stable productivity

After the recession that came close on the heels of the sovereign debt crisis in 2012, Italy experienced a major recovery phase: from 2014 to 2016, Italian gross domestic product increased by 1.0% per year on average, whereas between 2011 and 2013, it had fallen dramatically by an average of 2.3% (Graph 1). This growth has been achieved despite the decline in the country's working-age population.

Breaking down GDP as the product of per capita productivity and employment suggests that the recovery is mainly the result of dynamic employment: while it increased by 0.8% per year on average over the period from 2013 to 2016, apparent labour productivity slipped back slightly (–0.1% on average between 2013 and 2016). In 2017, growth in total employment appears to have stabilised at 1.2% over the year after 1.3% in 2016. Per capita productivity is likely to remain stable for 2017.



Source: Eurostat, Labour Force Survey

The strong rise in employment has not only reduced unemployment but also absorbed the increase in the labour force

The dynamic employment situation has helped to bring down unemployment. The rate decreased regularly from 2014 to 2016, from 12.7% to 11.7% of the labour force. However, although part of the population has been able to come out of unemployment, the quality of jobs has declined, with notably an increase in the proportion of involuntary part-time workers in the Italian occupied labour force since 2012. According to Eurostat, the number of people in employment who say they are working part-time because they have been unable to find full-time work has increased by more than 22% in four years. In Italy, this involuntary part-time work represented 63.1% of part-time jobs in 2016 (against 57.4% in 2012) and 11.8% of total employment (against 9.7% in 2012).

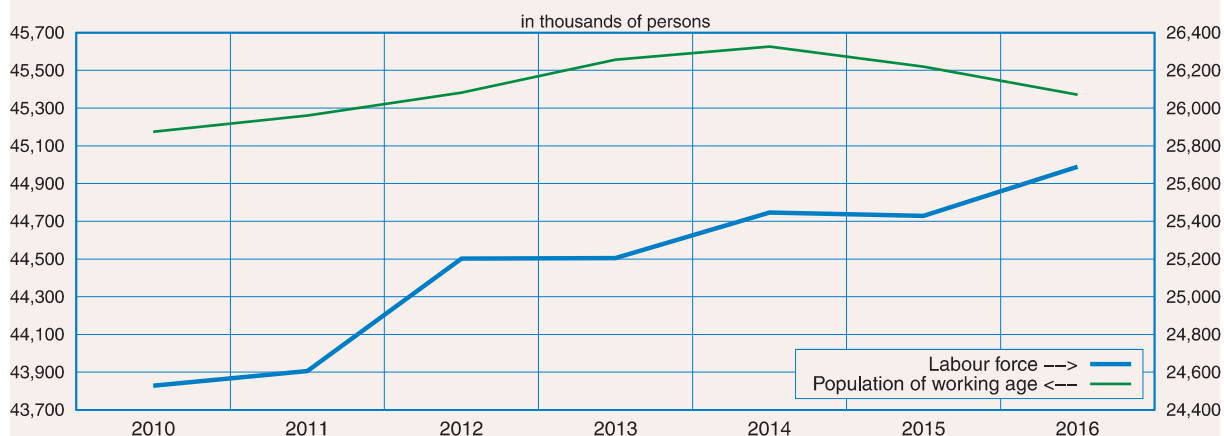
Employment in Italy has been much more dynamic than its demographics, which have declined: the growing demand for labour has only been satisfied thanks to the increase in the labour force. The Italian labour force increased by 0.5% per year, on average, between 2014 and 2016 (Table), whereas the Italian working-age population has declined since 2014 – having increased only slightly between 2012 and 2014 (Graph 2). Despite this slow demographic, the labour force participation rate increased substantially (+0.8 points between 2014 and 2016) and was able to meet the recruitment needs of businesses. This increase in the labour force participation rate can be attributed to the contrasting dynamics within different categories of workers.

Dynamics of the Italian labour market

	in %	
	Annual average variation between 2012 and 2014	Annual average variation between 2014 and 2016
Employment of the 15-74 age	-0.7	1.0
Employment rate	-1.1	0.6
Labour force population	0.5	0.5
of which contribution of labour force participation rate	0.3	0.7
of which working-age population	0.3	-0.3

Source: Eurostat, Labour Force Survey

2 - Change in working-age population and labour force



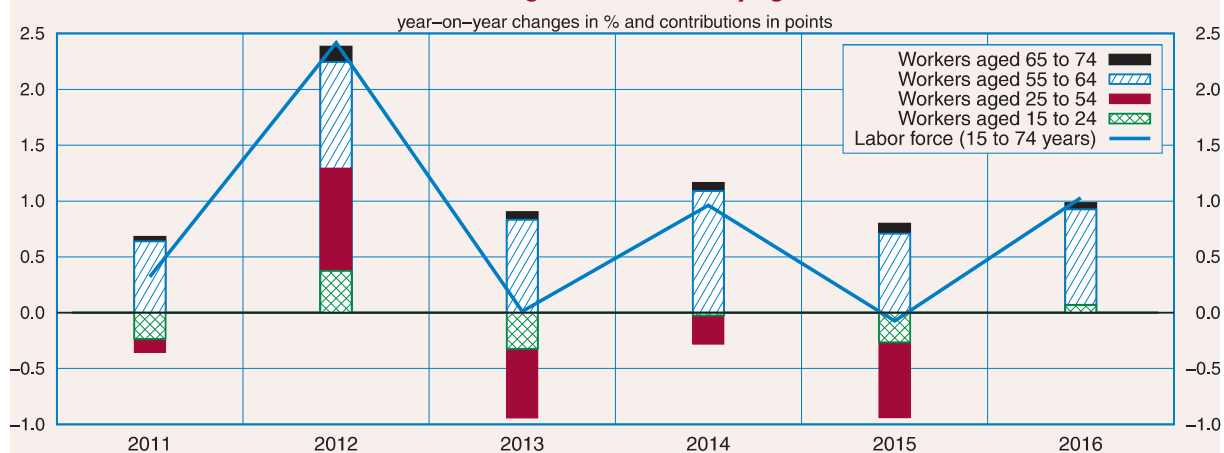
Source: Eurostat, Labour Force Survey

The over-55s are driving growth in the labour force

Workers aged over 55 are the foremost contributors to the growth in the labour force in Italy (Graph 3). Between 2012 and 2016, the active population aged 55 to 64 increased by 29% (their labour force participation rate increased from 42.5% to 53.4% over the same period) and 65 to 74-year-olds by 21% (with a labour force participation rate which rose from 5.9% in 2012 to 6.9% in 2016). This change in the older active population is linked with legislation on pensions: since the Fornero reform in 2011, the legal age for retirement on a full pension has been raised incrementally, in line with the change in life expectancy at 65, which is measured regularly. From 63 years and 9 months for female employees in the private sector and 66 years for men, and 66 years and 3 months for all employees in the public sector in 2014, the legal age of retirement will go up to 67 for both men and women in 2019. Early retirement without penalty is possible from the age of 62, provided workers have at least 42 years and 6 months of contributions for men and 41 years and 6 months for women. Otherwise, each year of early retirement reduces pension entitlements by one to two percentage points. So the proportion of retirees aged between 55 and 64 practically halved between 2011 and 2016 (dropping from 30.2% to 15.9% of the total population of 55 to 64-year-olds).

On the other hand, the increase in activity is not related to a change in the distribution of new workers by gender. From 2012 to 2016, both men and women contributed about 0.3 points to the +0.6% rise in the labour force participation rate. Italy still has few women in the labour market: in 2016, the labour force participation rate for women in Italy was lower than the European average (47.5% against 58.7% in Europe and 58.6% in France), although this gap is gradually closing.

3 - Change in labour force by age

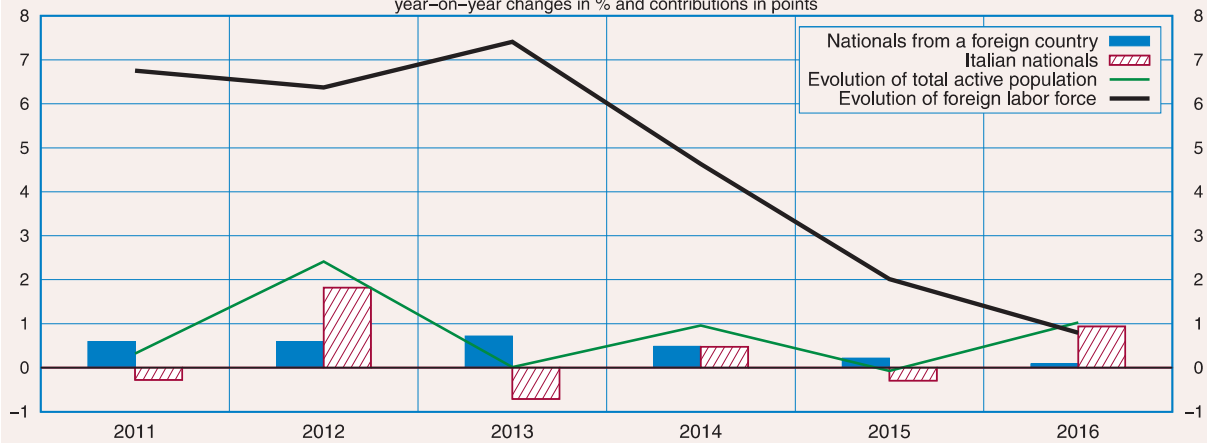


Source: Eurostat, Labour Force Survey

The contribution of foreigners to the increase in the labour force is declining

Foreign nationals have contributed less and less to the change in the labour force since 2014. The foreign active population in Italy, which in 2016 stood at more than 2.8 million, increased by 16% between 2012 and 2016, almost the same pace as the foreign population of working age. However, the contribution of foreign nationals to the change in the labour force has slowed significantly since 2014 (Graph 4). This figure does not seem to correlate with the number of migrants arriving in Italy: in fact, the number of asylum seekers in Italy follows a reverse trend, and has increased sharply since 2014. The number of Italians on the labour market remained stable over the same period, while the population of Italian nationals of working age dropped by 1%.

4 - Change in Italian labour force by origin
year-on-year changes in % and contributions in points



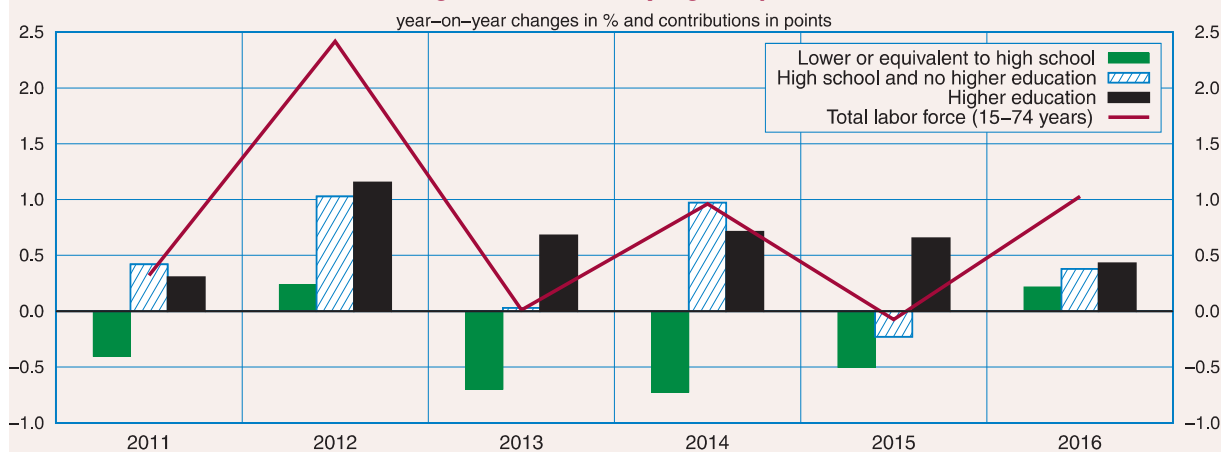
Source: Eurostat, Labour Force Survey

Higher education graduates are particularly active in the labour market

For the last five years, the Italian labour force has been swelled by higher education graduates. In 2016, they accounted for about 0.4% of the rise in the active population (Graph 5). Between 2015 and 2016 the proportion of workers with a higher education qualification increased by 2.2% in Italy (a similar pace to that in France over the same period, while the European level was higher at 2.7%). This trend was mainly due to higher education graduates aged over 50, and especially women graduates (who alone accounted for three quarters of the annual increase in 2016). This change reflects in particular the general European phenomenon of increasing levels of qualifications, a phenomenon that is particularly marked in the contrast between the generations born after the Second War who are retiring and those who have only recently entered the labour market.

On the other hand, the proportion of people in the active population whose qualifications were of primary school or lower secondary school level decreased by 4.8% between 2012 and 2016 (against -3.6% in France and -1.2% in the European Union). Finally, the contribution of high school graduates and those with a post-secondary non-higher education qualification (e.g. professional competence certificates, etc.) has been irregular over the last five years.

5 - Change in labour force by highest qualification



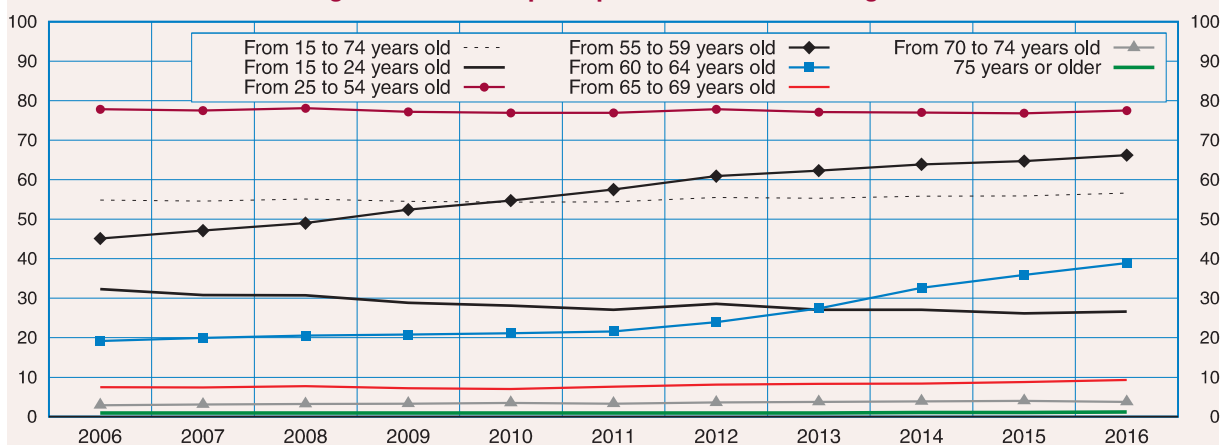
Source: Eurostat, Labour Force Survey

International developments

The dynamics of the labour force participation rate is a growth driver that will be fade away in the medium term but it still keeps a room for improvement

Thus the main reason why the Italian labour force participation rate is in such good health is the increased participation among seniors in the labour market, related to the raising of the retirement age. The labour force participation rate for 60 to 64-year-olds, an age bracket that has increased the most since the reform, has slowed in four years: from 23.9% to 32.6% between 2012 and 2014, then to 38.9% in 2016. If this slowdown were to continue at the same pace (increase of less than 2.4 points every two years), then the labour force participation rate for 60 to 64-year-olds will stabilise before 2020. In addition, the Fornero reform stipulates that the retirement age should increase every three years until 2019, then every two years until 2021. Once this date is reached and unless there is a new pension reform, which is what some politicians are calling for, the source of the country's dynamic activity, the older population, is likely to dry up. ■

6 - Change in labour force participation rate of different age brackets



Source: Eurostat, Labour Force Survey

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