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A Disaggregated Approach to Modelling UK Labour Force Participation - MPC Unit Discussion Paper No. 4 by Joanne Cutler and Kenny Turnbull

The MPC Unit published Discussion Paper No. 4 today. This looks at past and prospective movements in labour force participation rates using a disaggregated modelling approach which attempts to take account of the different trends in male and female participation rates over the past 15 years.

Fluctuations in the labour force participation rate are an important determinant of the cyclical behaviour of the unemployment rate, and hence wage pressures in the economy. In the two years to 2000 Q2, the participation rate rose sharply. This allowed employment to rise to record levels without a concomitant increase in wage pressures.

The authors find evidence that the cycle plays an important role in determining the participation rates of men and women in the short to medium run, once trend influences are taken into account. This contrasts with other work using a more aggregated approach.

Conditional on projections of the output gap made at the end of 2000, the authors project a continued increase in the participation rate of around 0.2 percentage points over the next two years. Male participation rates are expected to be flat or declining but this is more than offset by a further rise in female participation rates. The projected increase is smaller than in recent years which, in part, reflects slower growth.

Notes to Editors

1. These Discussion Papers report on research carried out by, or under the supervision of, the External members of the Monetary Policy Committee and their dedicated economic staff. Papers are made available as soon as practicable in order to share research results and stimulate further discussion of key policy issues. However, the views expressed are those of the author(s) and do not represent the views of the Bank of England or necessarily the views of External members of the Monetary Policy Committee.
2. A copy of the paper is available on the Bank of England's website.

Key Resources

A Disaggregated Approach to Modelling UK Labour Force Participation

MPC Unit Discussion Paper No. 4 by Joanne Cutler and Kenny Turnbull

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/externalmpcpapers/extmpcpaper004.pdf>