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# PERSPECTIVES

ON LABOUR AND INCOME

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■ THE LABOUR MARKET:  
UP NORTH, DOWN SOUTH

■ OLDER WORKERS AND  
THE LABOUR MARKET

■ MEN 55 AND OLDER:  
WORK OR RETIRE?



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.	not available for any reference period
.	not available for a specific reference period
...	not applicable
p	preliminary
r	revised
x	confidential
E	use with caution
F	too unreliable to be published

# Highlights

## *In this issue*

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### ■ **The labour market: Up north, down south**

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- While the U.S. went into official recession in 2001, Canada showed only one quarter during which its economy shrank. Not since 1974 has the economy grown in Canada while contracting in the U.S.
- While the U.S. economy shrank during the first three quarters of 2001, employment contracted every month of the year, dropping 1.1%. During the same period in Canada, the number of employees increased, albeit a scant 0.9%.
- In 2002, the divergent employment trends were more dramatic—a rise of 2.3% in Canada during the first seven months versus a drop of 0.1% in the United States.
- Not only were Canadian *trends* more positive, the *state* of the labour market in 2002 was also better. The proportion of the Canadian population working shot above 62% while it tumbled in the U.S., essentially eliminating the persistent gap in the employment rate. A gap remains in the unemployment rate, but the rate in Canada is higher only because Canadians are now more likely to be participating in the labour market.
- By July 2002, youths (16 to 24) and core-age workers (25 to 54) were more likely to be employed in Canada. Older workers (55 and over) continued to have a higher employment rate in the United States.
- Manufacturers in the United States continued to shed jobs through the first seven months of 2002 (-1.9%), whereas manufacturing employment in Canada rebounded sharply (+2.7%). By July, Canadian manufacturing shipments were 8.2% higher than at the start of the year, compared with U.S. gains of 3.5%.

- Between the third quarter of 2001 and the second quarter of 2002, residential investment in Canada increased 13%, considerably higher than the 3% gain south of the border. This had a more positive effect on construction, retail and wholesale trade, and finance and real estate employment.

### ■ **Older workers and the labour market**

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- Retirement as a self-reported event appears to be relatively infrequent. Only about 51% of men and 30% of women in the study population had retired from a job by age 65.
- Older workers experienced considerable job turnover. Between ages 50 and 65, the average number of job separations per worker was 3.2 for men and 2.6 for women.
- Job separation rates for older workers were similar to those of much younger workers. However, older workers had less chance of becoming re-employed. Rates of reemployment after one year declined steadily after age 25.

### ■ **Men 55 and older: Work or retire?**

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- In 2001, nearly 220,000 men aged 55 to 59 were not active in the labour market.
- The proportion of those not in the labour force rose for men aged 55 to 64 over the 1976 to 2001 period. The increase among men 55 to 59 is significant given their life expectancy and because they are below the age of eligibility for the Canada and Quebec Pension Plans.

## Highlights

- In 1976, labour market inactivity among men aged 55 to 59 was almost exclusively a domain of less-educated men. By 2001, the inactivity rate of men with a university degree was almost equal to that of men with only elementary education.
- While a majority had been inactive for more than a year, a smaller proportion left their last job in the previous 12 months. In 2001, a majority of

those who had worked in the previous 12 months left for reasons of retirement, followed by economic conditions (business conditions, layoff, etc.) A smaller proportion cited own illness or disability.

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# The labour market: Up north, down south

*Geoff Bowlby and Jeannine Usalcas*

*Unless otherwise noted, all data are seasonally adjusted and as of December 3, 2002.*

**F**EW MAJOR ECONOMIES are as intertwined as those of Canada and the United States. In fact, they are often viewed as one common North American economy—and with good reason. During the recessions of the 1980s and 1990s, when the U.S. economy suffered, so did the Canadian—and to a greater degree. Indeed, it is often said that when the United States catches a cold, Canada gets the flu.

With the introduction of the Canada-U.S. Free Trade Accord and then NAFTA, some expected that the inevitable progression of economic linkages would leave Canada even more susceptible to the ups and downs of the American economy. However, the very rapid expansion of the economy and labour force in Canada in 2002 stands in contrast to the relative stagnation south of the border.

While the U.S. went into official recession in 2001, Canada showed only one quarter during which its economy shrank. Not since 1974 has the economy grown in Canada while contracting in the United States. Not only was 2001 much worse for the American economy, which bottomed out in the third quarter, but since then economic growth has been stronger in Canada.

The divergence is even more apparent in labour market trends than in the overall economic trends. While Canadian employment eked out a small gain in 2001 and saw an explosive growth in the first half of 2002, U.S. employment dropped sharply in 2001 and was flat for the first half of 2002. This article documents and helps explain the key economic and labour market trends in both countries.

*The authors are with the Labour Statistics Division. Geoff Bowlby can be reached at (613) 951-3325 or [perspectives@statcan.ca](mailto:perspectives@statcan.ca); Jeannine Usalcas at (613) 951-4720 or [perspectives@statcan.ca](mailto:perspectives@statcan.ca).*

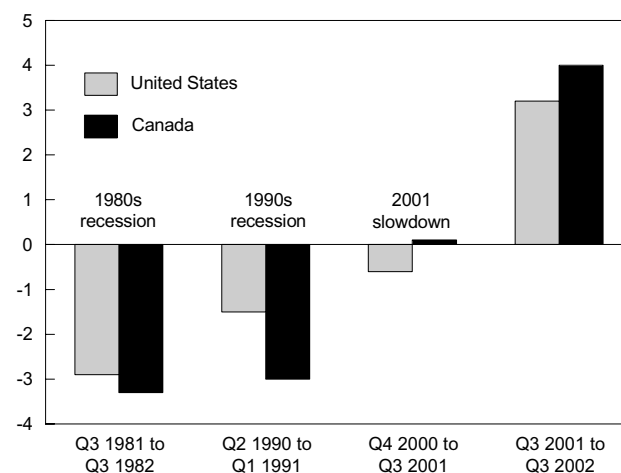
## The North American economy slipped in 2001, mostly in the United States

The 2001 economic contraction in the United States was unique in that it did not seem to affect Canada as much as past downturns (Chart A). In the downturn of the early 1980s,<sup>1</sup> the U.S. economy shrank by 2.9%, while gross domestic product (GDP) in Canada decreased 3.3%. During the early 1990s, a similar story occurred. GDP in the U.S. fell 1.5%, much less than the 3.0% drop in Canada.

But during the 2001 downturn in the United States, the Canadian economy expanded slightly. While GDP in the U.S. declined 0.6% between the last quarter of 2000 and the third quarter of 2001, it actually increased by 0.1% in Canada. This was much slower than growth during the 1997 to 2000 period, but growth nevertheless.

**Chart A: The 2001 economic slowdown in the U.S. affected Canada less than past downturns.**

Change, GDP in chained \$, at annual rates (%)



Sources: Statistics Canada; United States Bureau of Economic Analysis

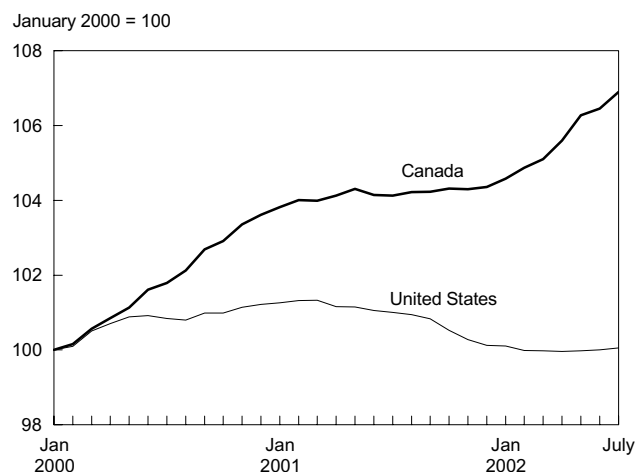
Not only did Canada fare better than the U.S. in the first three quarters of 2001, but when both economies began to pick up in the fourth quarter, Canada's economic growth was much stronger. From the third quarter of 2001 to the third quarter of 2002, GDP increased by 4.0% in Canada, compared with 3.2% in the United States.

### Implications for the labour market

As both economies weakened during the U.S. downturn, so too did the labour markets (Chart B). While the economy in the U.S. shrank during the first three quarters of 2001, employment contracted during the full 12 months of the year, dropping 1.1% (-1.4 million). During the same period in Canada, payroll employment increased by a scant 0.9% (+108,000).<sup>2</sup>

The weakened job situation caused unemployment rates to rise in both countries. As the Canadian rate (see *Unemployment*) increased from 6.0% to 7.1% at year-end, the rate in the U.S. rose from 4.0% to 5.8%. Had it not been for a drop in labour force participation in the U.S., the U.S. unemployment rate would have increased by more. In Canada, labour force participation ended the year unchanged (Chart C).

**Chart B: During the U.S. downturn, Canadian employment was flat, while U.S. employment was down sharply. Since then, employment in Canada has rebounded.**



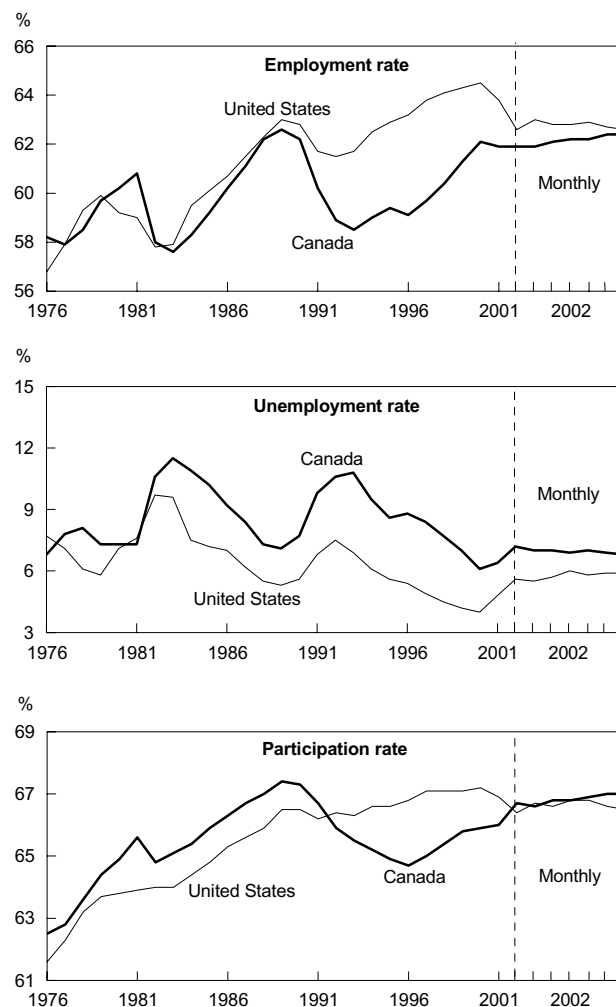
Sources: Survey of Employment, Payrolls and Hours (Canada); Current Employment Statistics (United States)

### Unemployment

Throughout this article, the Canadian rate has been adjusted to be closer to U.S. concepts of unemployment. For more information on how these adjustments were made, see the Autumn 1998 issue of *Labour Force Update* (Statistics Canada catalogue no. 71-005-XPB).

As a result of the relative strength of the Canadian economy in 2002, significant employment gains were made, but in the United States the employment trend

**Chart C: By mid-2002, virtually all of the unemployment rate gap could be accounted for by Canada's higher participation rate.**



Sources: Labour Force Survey (Canada); Current Population Survey (United States)

was flat. In the first seven months of the year, employment in Canada increased 290,000 (+2.3%) while in the U.S., it was down 99,000 (-0.1%). The unemployment rate in Canada declined as a result, hitting 6.8% by July, down 0.3 percentage points from December 2001. In the U.S., the unemployment rate in July was 5.9%, up slightly from 5.8% at the start of the year.

The continued strength in the Canadian labour market and weakness in the U.S. narrowed the employment rate gap between the two. For nine years (1992 to 2000), the difference between the Canadian and U.S. employment rates was 2 to 4 percentage points. By July 2002, the gap had narrowed to 0.2 percentage points, the smallest since 1988.

These labour market changes also affected rates of participation, as a greater percentage of Canadians than Americans were in the labour market by mid-2002. The last time the Canadian participation rate was higher was in 1991.

### Why was this downturn so different?

Compared with the 1990s recession, the 2001 contraction of the economy was much milder—to a large extent because North American consumers continued to spend. The 1990s recession, on the other hand, was

characterized by a drop in consumer spending and housing demand in the United States, and an outright collapse in Canada.

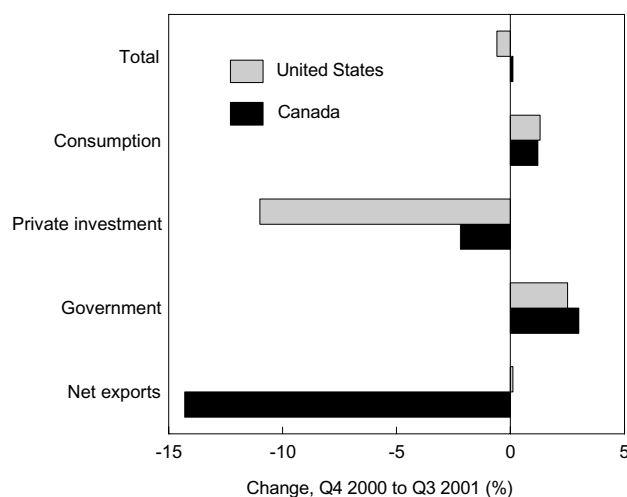
The main drag on the two economies in 2001 was the reduction in business spending (Chart D). In the U.S., the drop in private investment was much deeper. By the end of the third quarter of 2001, private investment in the United States had fallen 11%, much more than the 2% drop in Canada.

### Falling business investment directly affects the labour market...

Falling business investment had some direct effect on the labour markets in both countries, but more so in the United States. Employment in the manufacture of industrial machinery and electronic products in Canada fell by 7.1% between December 2000 and December 2001—a large drop, but not as big as the 11.0% slide in the United States.

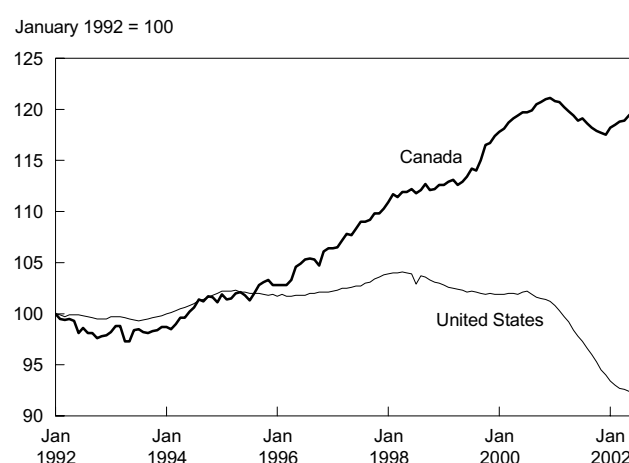
Overall, manufacturing was one of the main sources of divergent trends in employment in 2001 (Chart E). In the U.S., where manufacturing employment growth had been very weak for a number of years, manufacturing employment dove 7.1% (-1.3 million), but in Canada it fell only 3.0% (-61,000).

**Chart D: A large drop in private investment put a greater drag on the U.S. economy in 2001.**



Sources: Statistics Canada; United States Bureau of Economic Analysis

**Chart E: U.S. manufacturing employment fell considerably in 2001, Canada's less so.**



Sources: Survey of Employment, Payrolls and Hours (Canada); Current Employment Statistics (United States)

**...but machinery and equipment manufacturing employment not the only source of divergence**

Much of the divergence resulted from the smaller decline in industrial machinery and electronic product employment—not from differing trends in auto and auto parts employment (Table 1). In the U.S., sales of automobiles and light trucks fell somewhat through 2000 and into 2001. As a result, production at U.S. and Canadian plants slowed and employment fell. In both countries, employment in transportation equipment dropped 6.2% in 2001. In the United States, transportation equipment employment had already been on a downward trend since late 1998 but in Canada, employment in the industry had been rising.

In line with declining automotive production, employment at metal producers fell in both countries in 2001, but the decline in Canada (-2.6%) was significantly less than in the United States (-8.0%). In the face of increased international competition and falling profits, numerous U.S. steel companies filed for Chapter 11 bankruptcy in 2001—most notably, Bethlehem Steel.<sup>3</sup>

**Table 1: Employment change by industry\***

	December 2000 to December 2001			
	Canada		U.S.	
	'000	%	'000	%
<b>Industrial aggregate</b>	<b>107.5</b>	<b>-1,429.0</b>	<b>0.9</b>	<b>-1.1</b>
Mining, oil and gas	3.8	15.0	2.8	2.7
Construction	49.9	-35.0	9.0	-0.5
Manufacturing	-61.4	-1,310.0	-3.0	-7.1
Textiles and apparel	1.6	-147.0	1.0	-12.4
Rubber and plastics	1.1	-66.0	0.9	-6.6
Metal products	-7.7	-178.0	-2.6	-8.0
Transportation equipment	-15.2	-113.0	-6.2	-6.2
Machinery and equipment	-21.1	-522.0	-7.1	-11.0
Other manufacturing	-19.9	-284.0	-2.1	-3.8
Utilities	1.0	-8.0	0.9	-0.9
Trade	11.2	-367.0	0.5	-1.2
Transportation and warehousing	-1.8	-225.0	-0.3	-4.9
Finance, insurance and real estate	1.8	115.0	0.2	1.5
Services	102.0	-77.0	1.9	-0.2
Public administration	0.9	463.0	0.1	2.2

Sources: Survey of Employment, Payrolls and Hours (Canada); Current Employment Statistics (United States)

\* See Industry concordance.

The greater decline of the U.S. manufacturing sector had larger, negative, spin-off effects in the transportation industry. In the U.S., transportation employment fell 4.9% compared with only 0.3% in Canada. In 2001, trucking employment in the U.S. dropped 1.7% while increasing 3.3% in Canada.

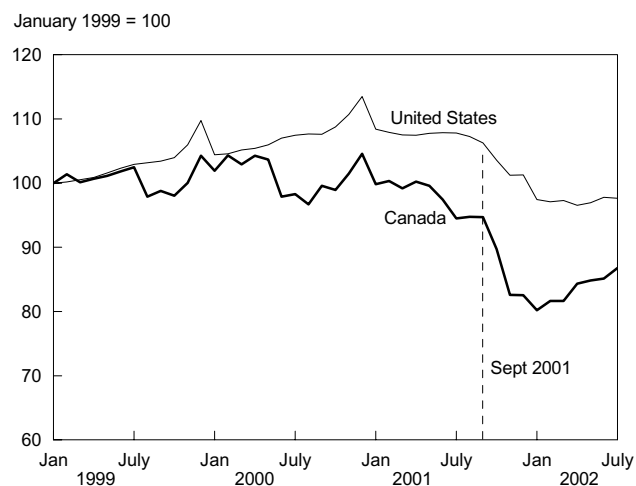
**Earlier adjustments in the Canadian airline industry**

The gain in trucking employment in Canada was enough to offset the drop in air transportation, a drop that was proportionately larger in Canada than in the United States. In Canada (Chart F), the air transportation industry began to cut back staff early in the year, beginning a downward trend that undoubtedly accelerated after the collapse in travel following September 11. In the U.S., almost all of the year's losses occurred in the September to December period, when the Bureau of Labor Statistics noted the largest air transportation employment decline on record.

**Who was most affected in 2001?**

With the employment loss in the United States (-1.1%) and weak growth in Canada (+0.9%) came increased unemployment rates in both countries in 2001 (Table 2).

**Chart F: The decline in air transportation employment in 2001 was larger in Canada.**



Sources: Survey of Employment, Payroll and Hours (Canada); Current Employment Statistics (United States). Unadjusted for seasonality.



In the U.S., the rate increased 1.8 percentage points to end the year at 5.8%, while in Canada the rate increased 1.1 points to 7.1%.

Youths were particularly hard hit in 2001 in both countries, but more so in the United States. The youth unemployment rate in the U.S. leapt 2.7 percentage points to 11.9%. The Canadian rate, although higher, increased by a more moderate 1.4 percentage points to 12.9%.

**Table 2: Selected labour force rates**

	December 2000	December 2001	July 2002
	%		
<b>Unemployment rate</b>			
<b>Canada, 16 and over</b>	<b>6.0</b>	<b>7.1</b>	<b>6.8</b>
Men	6.3	7.8	7.2
Women	5.8	6.4	6.3
16 to 24	11.5	12.9	12.4
25 to 54	5.2	6.2	5.9
55 and over	3.7	5.4	4.8
<b>United States</b>	<b>4.0</b>	<b>5.8</b>	<b>5.9</b>
Men	4.1	5.8	6.0
Women	3.9	5.8	5.7
16 to 24	9.2	11.9	12.3
25 to 54	3.0	4.7	4.8
55 and over	2.5	4.0	3.7
<b>Employment rate</b>			
<b>Canada, 16 and over</b>	<b>62.4</b>	<b>61.7</b>	<b>62.4</b>
Men	68.7	67.5	68.3
Women	56.4	56.1	56.8
16 to 24	61.5	60.2	61.0
25 to 54	80.1	79.4	80.3
55 and over	24.7	25.2	26.1
<b>United States</b>	<b>64.5</b>	<b>63.0</b>	<b>62.6</b>
Men	71.6	69.9	69.5
Women	57.9	56.5	56.3
16 to 24	60.0	56.0	55.2
25 to 54	81.4	79.8	79.1
55 and over	31.6	32.2	33.4
<b>Participation rate</b>			
<b>Canada, 16 and over</b>	<b>66.4</b>	<b>66.4</b>	<b>67.0</b>
Men	73.3	73.1	73.6
Women	59.8	60.0	60.6
16 to 24	69.5	69.1	69.7
25 to 54	84.5	84.6	85.4
55 and over	25.6	26.6	27.4
<b>United States</b>	<b>67.2</b>	<b>66.8</b>	<b>66.5</b>
Men	74.7	74.2	73.9
Women	60.2	60.0	59.7
16 to 24	66.0	63.6	63.0
25 to 54	83.9	83.7	83.1
55 and over	32.4	33.6	34.7

Sources: Labour Force Survey (Canada); Current Population Survey (United States)

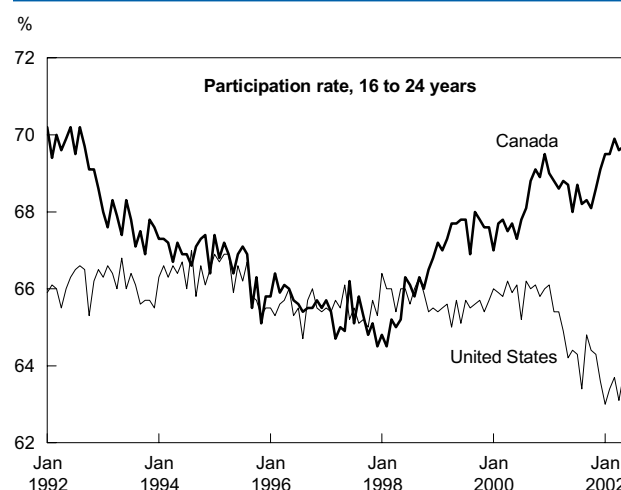
The higher youth unemployment rate in Canada was a reflection of greater labour market participation. In fact, a higher proportion of Canadian youth was employed (60% compared with 56%) by December 2001, suggesting an economy in Canada more favourable to youths.

Youth participation rates declined by 2.4 percentage points in the United States compared with 0.4 in Canada (Chart G). By the end of 2001, Canadian youth participation stood at 69.1%, much higher than the 63.6% in the United States.

Two factors more than likely account for the high numbers of American youth not participating in the labour market in 2001. Most importantly, the United States experienced a much stronger labour market contraction. With fewer skills and experience, young workers are among the first to be let go.

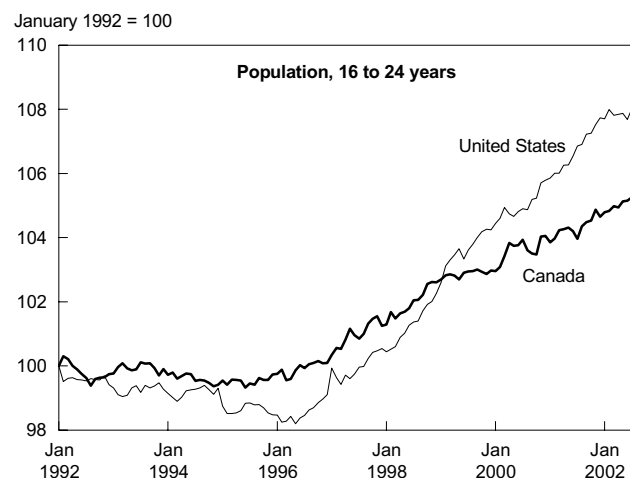
Secondly, demographics may have played a role. The American youth population has been growing at a faster pace since 1996 (Chart H). From December 2000 to December 2001, it grew by 1.8% compared with only 0.6% in Canada. An increasing youth population in a very tough labour market translates to greater competition for fewer jobs.

**Chart G: Youth participation rates have been higher in Canada for over three years.**



Sources: Labour Force Survey (Canada); Current Population Survey (United States)

**Chart H: Youth population has risen much faster in the U.S., contributing to a more competitive job market for young people.**



Sources: Labour Force Survey (Canada); Current Population Survey (United States)

### Core-age workers

The unemployment rate for core-age workers (25 to 54) increased 1.7 percentage points in 2001 in the U.S., but only 1.0 in Canada. Core-age men in both countries had similar increases, but Canadian women were better able to retain their jobs. Their unemployment rate rose only 0.5 percentage points compared with 1.8 for American women.

The participation rate for core-age workers in both countries scarcely changed in 2001. By December 2001, it had increased 0.1 percentage points to 84.6% in Canada, and decreased 0.2 percentage points to 83.7% in the United States.

### Older workers

Labour market changes for older workers (55 and over) were similar in the two countries. The Canadian unemployment rate increased from 3.7% to 5.4% between December 2000 and December 2001; the American rate, from 2.5% to 4.0%.

In both countries, the increase in unemployment rates among older workers was due entirely to rising participation. In fact, employment opportunities improved. The employment rate of American older

### Data sources

General trends in unemployment and demographic changes are from the **Current Population Survey** (United States) and the **Labour Force Survey** (Canada). Industry employment comparisons use the **Current Employment Statistics** survey (United States) and the **Survey of Employment, Payrolls and Hours** (Canada). **Local Area Unemployment Statistics** were used for state analysis. More information on the U.S. surveys can be found on the Bureau of Labor Statistics Web site at [www.bls.gov](http://www.bls.gov).

The **Current Population Survey** (CPS) is a monthly household survey with a sample size of approximately 60,000 households. It provides statistics on the labour status (employed, unemployed, and not in the labour force) and demographic characteristics of the civilian non-institutional population 16 years of age and over.

The **Current Employment Statistics** (CES) survey is a monthly, employer-based survey with a sample of over 390,000 establishments. It collects employment, hours, and earnings of payroll jobs in non-farm industries (excluding private households). Estimates from the CES survey refer only to wage and salary workers (employees).

Since the CPS sample size is not large enough to provide reliable monthly estimates for all geographic levels, the **Local Area Unemployment Statistics** (LAUS) program provides monthly estimates of employment and unemployment by geographic detail (some 6,800 areas). The official concepts and definitions are the same as those used in the CPS. Monthly estimates for states are produced using a variety of methodologies, combining current and historical data from several sources—CPS, CES and the unemployment insurance program.

The **Labour Force Survey** (LFS) is a monthly household survey, with a sample size of approximately 53,000 Canadian households. It provides estimates on the labour force status and demographic characteristics of the civilian non-institutional population 15 years of age and over. Estimates are produced at the national, provincial, and sub-provincial levels. Excluded are residents of Yukon, the Northwest Territories and Nunavut; persons living on Indian reserves; full-time members of the Canadian Forces; and inmates of institutions.

The **Survey of Employment, Payrolls and Hours** (SEPH) is the Canadian monthly establishment survey and is based on a census of administrative records (payroll deduction remittances) and the Business Payroll Survey. It collects data on the number of employees paid, payrolls, and hours at detailed industrial, provincial and territorial levels. Excluded are establishments primarily involved in agriculture, fishing and trapping; private households; religious organizations; and military personnel.

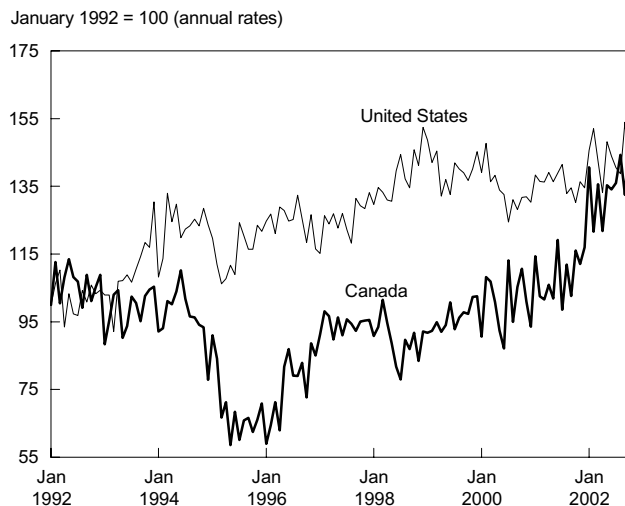
workers in 2001 increased 0.6 percentage points to 32.2% and 0.5 percentage points to 25.2% for Canadian older workers. These gains were experienced equally by men and women.

### What happened in 2002?

From the third quarter of 2001 to the third quarter of 2002, output in Canada increased 4.0%, compared with 3.2% in the U.S. Private investment by Canadian and American firms had yet to rebound in earnest, but significant improvements in residential construction and strong net export growth caused growth in Canada to be much stronger.

As stated earlier, this greater economic growth had a more positive effect on the Canadian labour market. In the first seven months of 2002, the number of employees increased 2.3% (+290,000), whereas in the United States employment during this period was flat (-0.1%). This helped the unemployment rate in Canada drop from 7.1% at the start of the year to 6.8% by July. Had it not been for a huge increase in labour market participation during this period, the unemployment rate would have fallen more. In the United States, the unemployment rate was 5.9% in July, up from 5.8% in December 2001.

**Chart I: Growth in new housing starts in Canada caught up to U.S. growth in 2002.**



Sources: Canada Housing and Mortgage Corporation; United States Census Bureau

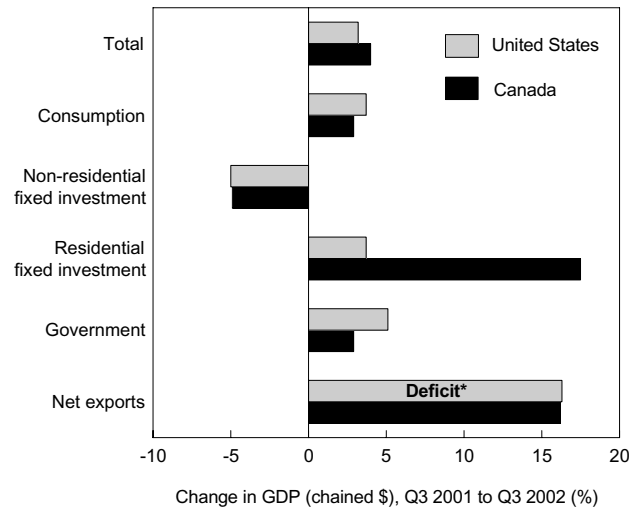
### The strength of the Canadian economy in 2002: houses and cars

January 2002 saw an explosion of housing construction in Canada as consumers reacted to very low interest rates. That month, Canadian housing starts jumped to 40% above their 1992 levels and hovered there for the first half of the year (Chart I).

The surge in housing starts in Canada led to a huge 13% increase in residential investment following the third quarter of 2001 (Chart J). In the United States, the increase was a more moderate 3%. After running behind U.S. residential investment for a number of years, Canadian investment in the second quarter of 2002 was 24% higher than in 1997, compared with a 21% gain in the U.S.

In Canada, the construction boom had a much greater effect on employment. By July, construction employment was up 1.2% since the start of the year. In the United States, construction jobs fell 1.7% in the same period.

**Chart J: The stronger rebound in Canada can be traced to more residential investment and an improved trade position.**



Sources: Statistics Canada; United States Bureau of Economic Analysis

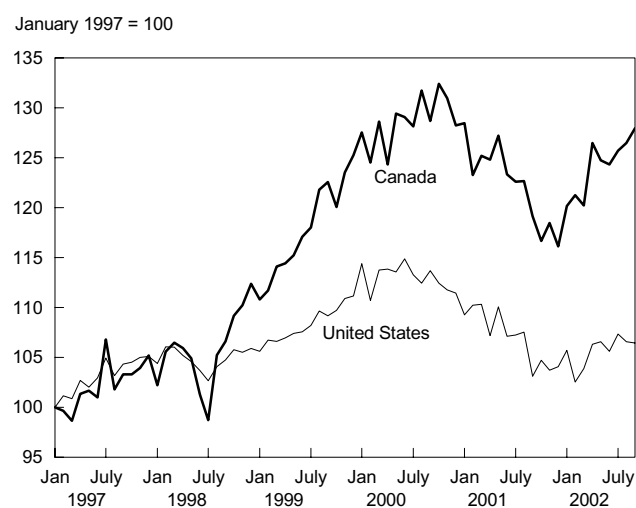
\* Exports exceed imports in Canada, but not in the United States. Thus, the percentage change expressed in net exports in this graph represents growth in the trade balance in Canada, but growth in the trade deficit in the United States.

In Canada, the increase in home construction and sales spurred employment in real estate services. Much of the 3.1% increase in finance, insurance, and real estate employment can be attributed to a gain in real estate, as well as to added work at banks—perhaps a reaction to an increase in home financing.

The Canadian construction boom is not the only reason for the faster expansion here. Exports picked up, leading to a rebound in the Canadian manufacturing sector in 2002 (Chart K). Sales and production of automobiles after the third quarter of 2001 were stronger in Canada than in the United States. The rebounding automobile sector contributed greatly to the expansion in exports from Canada during this time.

Driven by low-rate financing and strong pent-up demand, the jump in car dealer sales was significant, up 9.3% to \$6.9 billion in the second quarter. This, combined with a 2.9% increase in sales at U.S. car dealers, led to greater automobile and parts production in both countries, but particularly in Canada. Here, automobile shipments jumped 10.1% after the third quarter of 2001, somewhat greater than the 7.8% increase in auto and parts production in the United States.

**Chart K: Manufacturing shipments growth was much stronger in Canada in 2002.**



Sources: *Monthly Survey of Manufacturing (Canada)*; *United States Census Bureau*

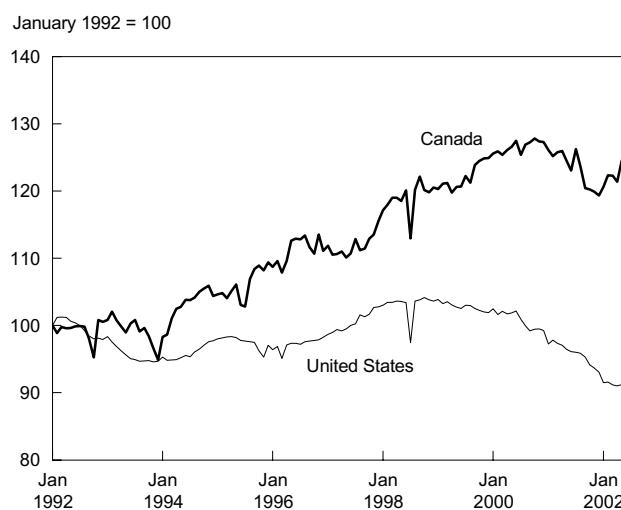
Even though car and parts sales and production increased in the United States, employment in the industry continued on the downward trend that began four years earlier (Chart L). In Canada, however, the employment gain in transportation equipment was significant. In the first half of 2002, it increased 7.0%, compared with a 2.8% drop in the United States (Table 3).

Retail and wholesale trade employment increased a considerable 3.8% in Canada, whereas it was flat in the United States in the first seven months of the year. In Canada, retail trade employment increased 4.5% between July 2001 and July 2002, and a third of this gain can be attributed to added employment at construction product retailers, furniture and appliance stores, and motor vehicle dealers.

Also related to the expansion of automobile production jobs north of the border was a 3.9% gain in metal product manufacturing jobs. In the United States, the problems in that industry persisted into the first seven months of 2002, as metal manufacturers shed another 1.7% of their workforce.

Canada saw an upturn in employment in machinery manufacturing, pushing employment in the broader machinery and equipment sector up 3.4%. In the United

**Chart L: Employment in transportation equipment manufacturing rebounded in Canada, but continued to decline in the U.S.**



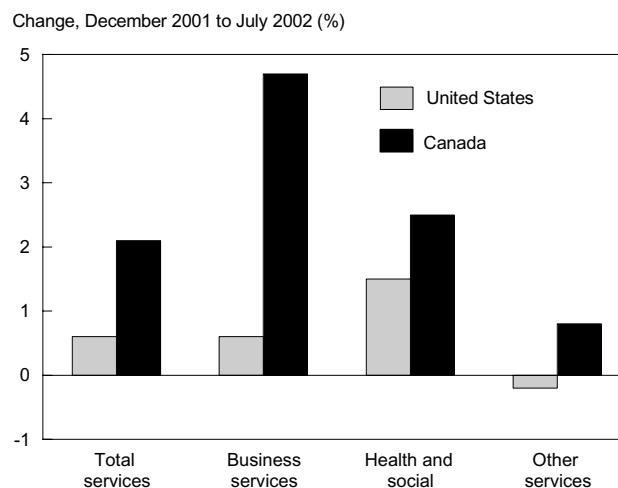
Sources: *Survey of Employment, Payroll and Hours (Canada)*; *Current Employment Statistics (United States)*

States, employment in this industry continued to fall, dropping another 3.6% in the first seven months of 2002. Machinery equipment producers largely service other manufacturers. With the recent gains in manufacturing shipments in Canada being considerably larger (8.2% year-to-date by July) than the gains in the United States (3.5%), one would expect greater hiring at Canadian machinery equipment producers.

Government spending increased in both the United States and Canada following the end of the third quarter 2001. While the spending increase was greater in the U.S. than in Canada, much of it in the U.S. was military-related; in Canada, defence expenditure increases were more moderate. In both countries, the number of armed forces personnel has been on an upward trend ever since the September 11 attacks.

Added spending in health care and social assistance in 2002 in Canada helped contribute to the greater gains in services employment in Canada (Chart M). In the first seven months of the year, health care and social assistance employment increased 2.5%, compared with a 1.5% gain in that sector in the United States. Services to business also increased at a faster pace in Canada than in the U.S. In Canada, the number of employees

**Chart M: Services employment increased much more in Canada.**



Sources: Survey of Employment, Payrolls and Hours (Canada); Current Employment Statistics (United States)

in business services (such as professional, engineering and legal services) increased 4.7%, considerably more than the 0.6% growth south of the border.

**Table 3: Employment change by industry\***

	December 2001 to July 2002			
	Canada		U.S.	
	'000	%	'000	%
<b>Industrial aggregate</b>	<b>290.0</b>	<b>-99.0</b>	<b>2.3</b>	<b>-0.1</b>
Mining, oil and gas	-1.3	-14.0	-0.9	-2.5
Construction	7.0	-115.0	1.2	-1.7
Manufacturing	54.5	-320.0	2.7	-1.9
Metal products	11.0	-35.0	3.9	-1.7
Transportation equipment	16.0	-48.0	7.0	-2.8
Machinery and equipment	9.4	-153.0	3.4	-3.6
Other manufacturing	18.0	-84.0	1.6	-0.8
Utilities	-0.4	0.0	-0.3	0.0
Trade	84.3	-2.0	3.8	0.0
Transportation and warehousing	-0.8	-4.0	-0.1	-0.1
Finance, insurance and real estate	23.8	-11.0	3.1	-0.1
Services	116.1	261.0	2.1	0.6
Public administration	6.7	106.0	0.9	0.5

Sources: Survey of Employment, Payroll and Hours (Canada); Current Employment Statistics (United States)

\* See Industry concordance.

### Who was getting the jobs in 2002?

By mid-2002, employment rates in Canada had returned to the highs of December 2000. All major age and sex groups experienced similar employment rate increases with the exception of older men, whose employment rate increased by 1.4 points, much greater than the overall average of 0.8 points.

Employment rates in the United States continued to decline for youth and core-age workers (down almost 1.0 percentage points) through mid 2002, while older workers continued to find employment (1.2 percentage point increase). By July 2002, employment rates in the United States were still approximately 2 percentage points below December 2000 levels.

Unemployment rates in Canada declined for each sex and major age group by mid-2002, although men, youth and older workers had slightly higher than average decreases. In the United States, unemployment rates for men, youth and adult workers continued to increase into 2002.

### Increase in part-time work a North American phenomenon

Much discussion has focused on the ‘quality’ of the employment growth in Canada in the last year—a growing share of employment growth has been part-time rather than full-time (Chart N). Part-time employment grew faster than full-time employment in Canada in the last year, increasing 3.7% from July 2001 to July 2002, compared with a 1.8% increase in full-time employment. The United States saw an even greater increase in part-time employment during the same time, 4.9%.

Even though part-time employment increased, the proportion of employment that is part-time (part-time rate) increased minimally in Canada, from 22.6% in July 2001 to 23.0% in July 2002. In the United States, the part-time rate increased from 16.0% to 16.9% over the same period.

### The regional perspective

Only two provinces experienced a net decline in employment in 2001 (Figure): British Columbia (-61,000) and Saskatchewan (-15,000). British Columbia’s losses were caused mainly by a lumber produc-

tion slowdown or halting of operations, while Saskatchewan experienced falling farm employment, a trend that started in 2000.

Most provinces, however, experienced an unemployment rate increase, except Manitoba and Newfoundland and Labrador where unemployment rates decreased minimally (0.4 percentage points). Quebec and British Columbia had the highest increases—1.7 and 2.8 percentage points respectively between December 2000 and December 2001.

By July 2002, employment had increased for 9 of the 10 provinces, with Ontario, Quebec, British Columbia, and Alberta experiencing the bulk of growth. Eight of the 10 provinces experienced unemployment rate declines by mid-2002. Unemployment rates for Ontario and Manitoba increased minimally from December 2001, by 0.3 and 0.4 percentage points respectively.

In the U.S., employment declines and unemployment increases in 2001 were more widespread. Employment declined in 31 of the 50 states in 2001. New York, Michigan, Illinois, Washington and Georgia were among the hardest hit, accounting for two-thirds of the employment decrease. Unemployment rate increases were even more widespread, as rates rose in 46 of the 50 states, with increases of a full percentage point in 28 states.

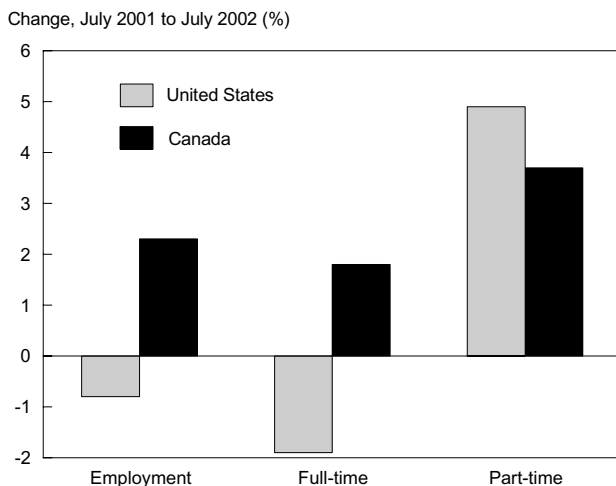
The labour market outlook fared better for the first seven months of 2002. Between December 2001 and July 2002, employment declined in only 11 states, and 16 enjoyed increases of over 2%. By mid-2002, New York (1.7%), Washington (2.3%) and Georgia (2.4%), three of the hardest hit in 2001, enjoyed employment increases. Unemployment rates increased in less than half of the states (24), and only two experienced an increase of a full percentage point or more.

### Conclusion

The first seven months of 2002 were remarkably positive for the labour market in Canada, but unfortunately, the same cannot be said for the United States. Employment in Canada increased by 2.3% between December 2001 and July 2002, whereas in the U.S., the trend was flat (-0.1%).

Not only were Canadian *trends* more positive, the *state* of the labour market in Canada was in better shape. As a result of the relative strength of the Canadian economy, the proportion of the Canadian population working shot above 62%, while it tumbled in the U.S.,

**Chart N: Part-time employment grew faster in the U.S. than in Canada.**



Sources: Labour Force Survey (Canada); Current Population Survey (United States)  
 Note: Data not adjusted for seasonality and based on the American definition: part-time, less than 35 hours per week; full-time, 35 hours or more per week.

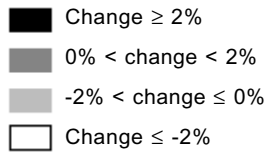
**Figure: Changes in employment and the unemployment rate, by province and state.**

**Employment**

December 2000 to December 2001



December 2001 to July 2002

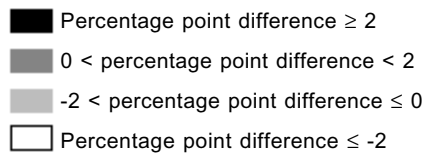


**Unemployment rate**

December 2000 to December 2001



December 2001 to July 2002



Sources: Labour Force Survey (Canada); Local Area Unemployment Statistics program (United States)

essentially eliminating the persistent employment rate gap. (However, the full-time employment rate in the United States remained higher than in Canada.) A gap remained in the unemployment rate, but Canada's was higher only because Canadians were more likely to be participating in the labour market.

2 In this paragraph, the employment figures used are from the Survey of Employment, Payroll and Hours (Canada) and the Current Establishment Survey (United States).

3 See David Langdon, Terrance McMenamin and Thomas Krolik, "U.S. labor market in 2001: Economy enters a recession," *Monthly Labor Review* 125 no. 2 (Washington: Bureau of Labor Statistics, February 2002).

Perspectives

■ Notes

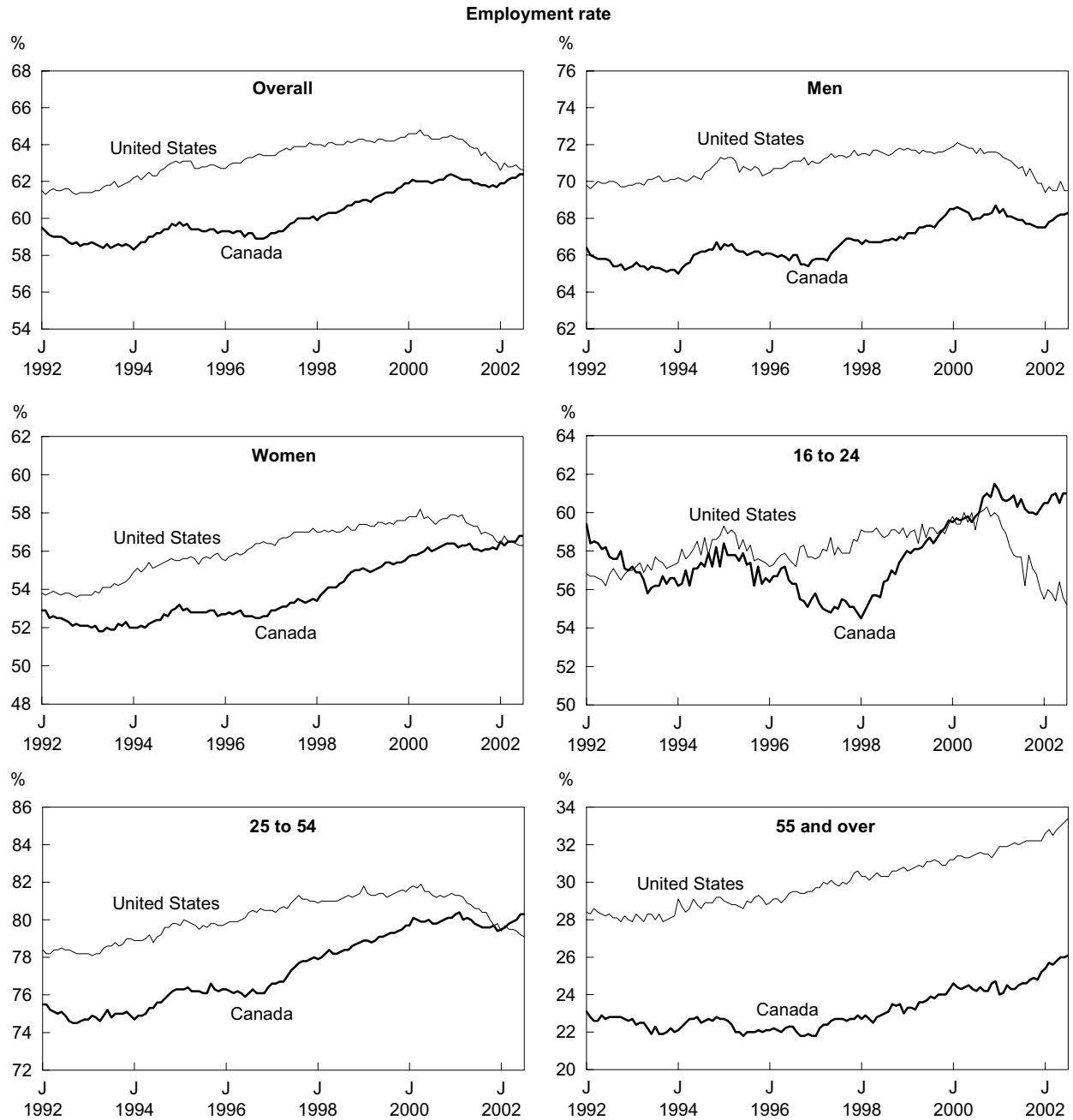
1 In the 1980s, the economic downturn ran from the fourth quarter of 1981 to the third quarter of 1982. In the 1990s, the contraction ran from the third quarter of 1990 to the first quarter of 1991. The 2001 decline occurred over the first three quarters of 2001.

Industry concordance		
Table for comparisons of estimates from the Survey of employment, payrolls and hours (SEPH), using the North American Industry Classification System (NAICS), and the Current Employment Statistics (CES), using the Standard Industrial Classification system (SIC).		
Industry	SEPH – NAICS (including codes)	CES – SIC (including codes)
Mining, oil and gas	Mining, oil and gas extraction (21)	Mining (10-14)
Construction	Construction (23)	Construction (15-17)
Manufacturing	Manufacturing (31-33)	Manufacturing (20-39)
Textiles and apparel	Textile mills and products, clothing, and leather products (313-316)	Textile mill products, apparel and leather products (22, 23, 31)
Rubber and plastics	Plastics and rubber (326)	Rubber and plastic products (30)
Metal products	Primary and fabricated metals (331-332)	Primary and fabricated metals (33-34)
Transportation equipment	Transportation equipment (336)	Transportation equipment (37)
Machinery and equipment	Machinery, computer, electronic, electric equipment (333-335)	Industrial, commercial, computer, electronic, other electric equipment, instruments (35-36, 38)
Utilities	Utilities (22)	Utilities (49)
Trade	Wholesale and retail trade (41, 44-45)	Wholesale and retail trade (50-59)
Transportation and warehousing	Transportation and warehousing (48-49)	Transportation (40-47)
Finance, insurance and real estate	Finance, insurance and real estate (52-53)	Finance, insurance and real estate (60-67)
Services	Information and cultural industries (51)	Services, communications (70-88, 48)
	Professional, scientific and technical services (54)	
	Management of companies and enterprises (55)	
	Administrative and support, waste management and remediation services (56)	
	Educational services (61)	
	Health care and social assistance (62)	
	Arts, entertainment and recreation (71)	
	Accommodation and food services (72)	
	Other services (81)	
Public administration	Public administration (91)	Public administration (91-99)



## Appendix

**Chart A1: Employment rates by sex and age**



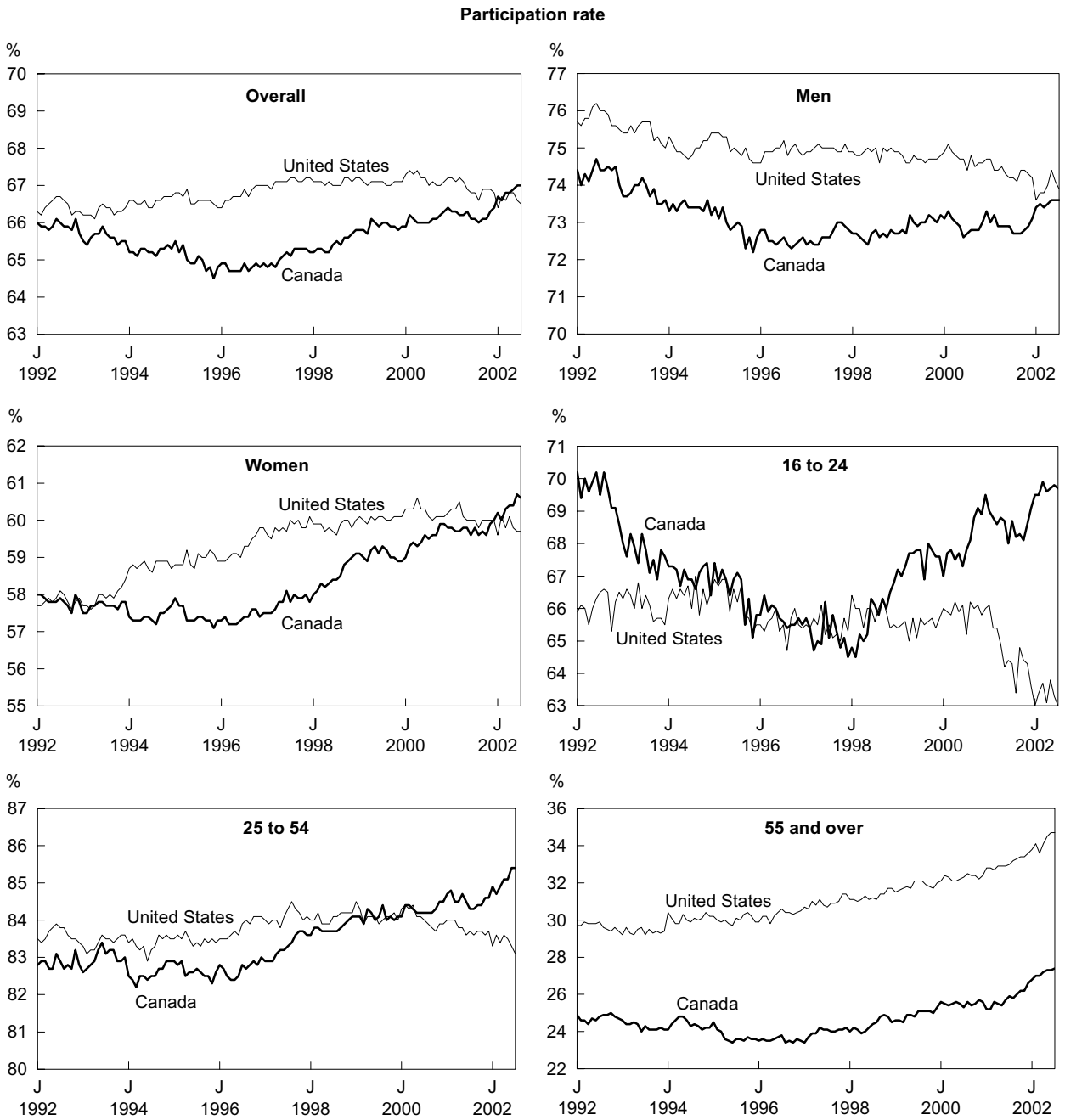
Sources: Labour Force Survey (Canada), Current Population Survey (United States)

**Chart A2: Unemployment rates by sex and age**



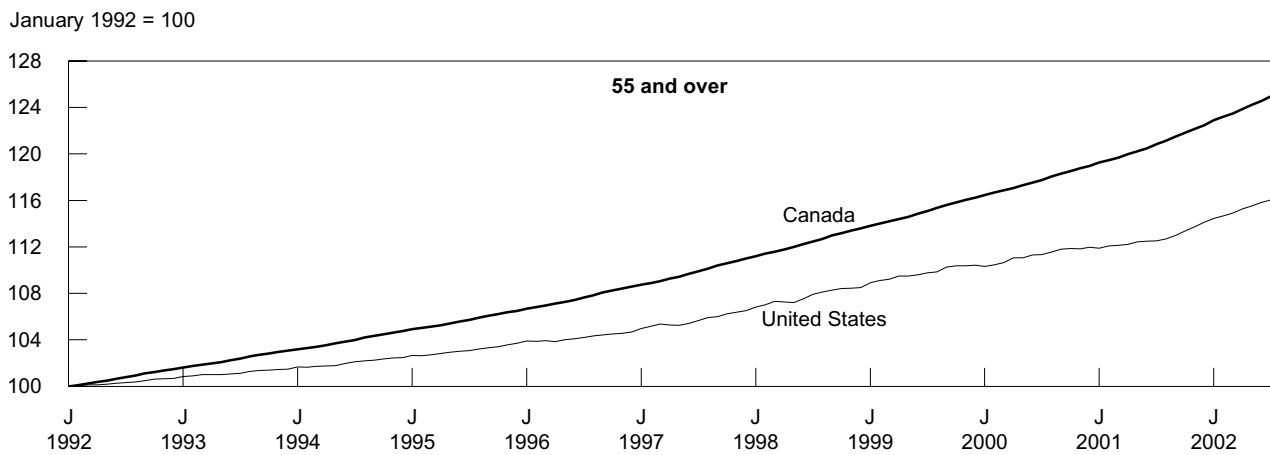
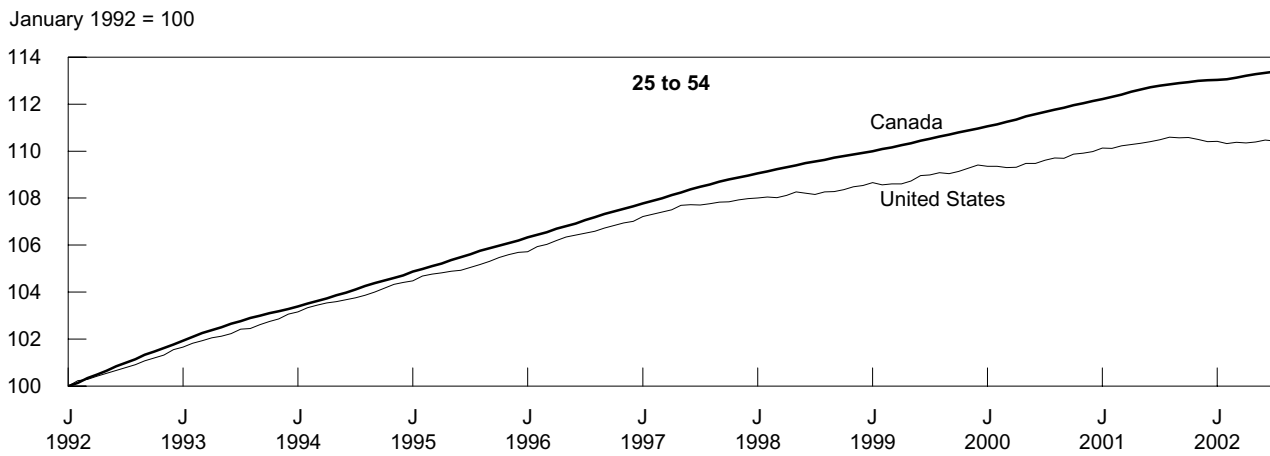
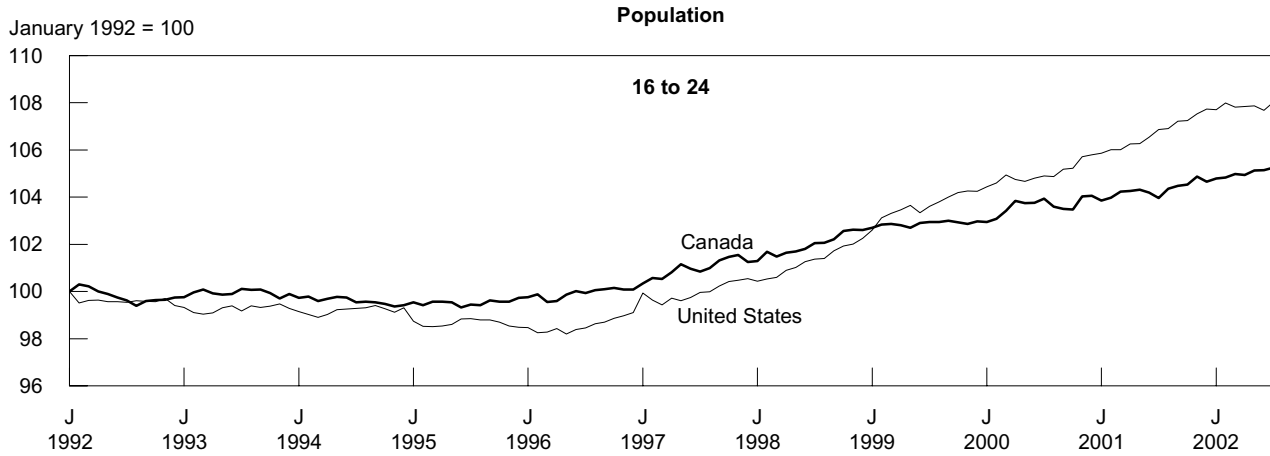
Sources: Labour Force Survey (Canada), Current Population Survey (United States)

**Chart A3: Participation rates by sex and age**



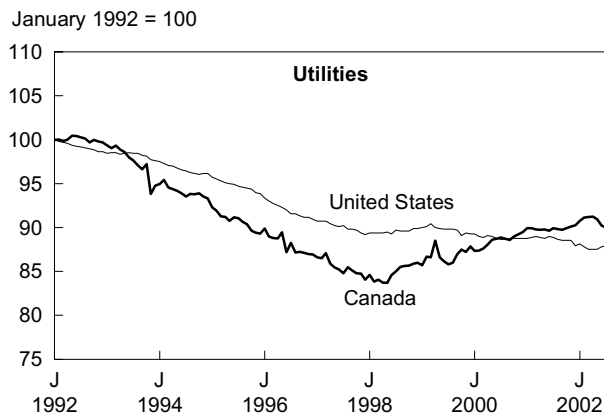
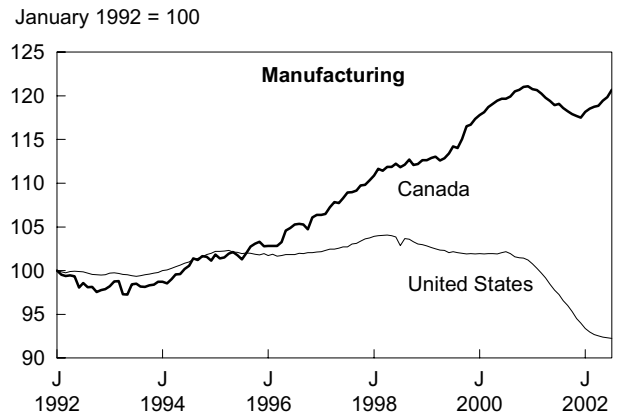
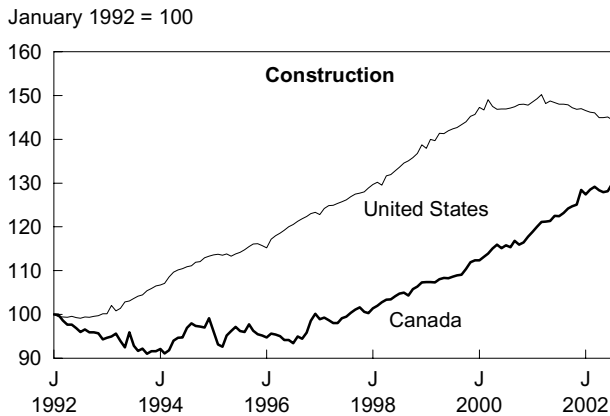
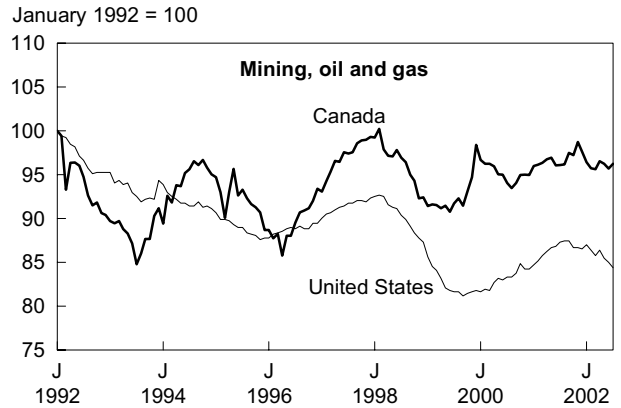
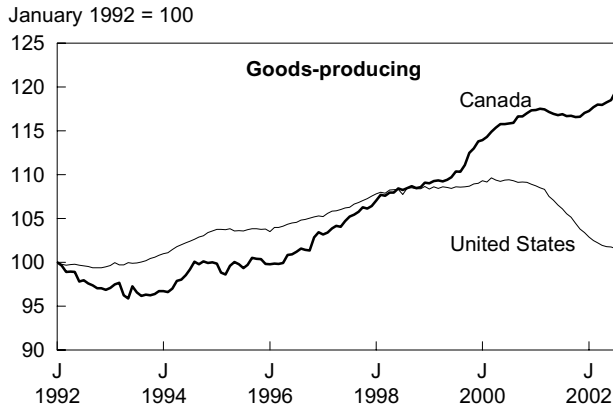
Sources: Labour Force Survey (Canada), Current Population Survey (United States)

**Chart A4: Population indexes by age**



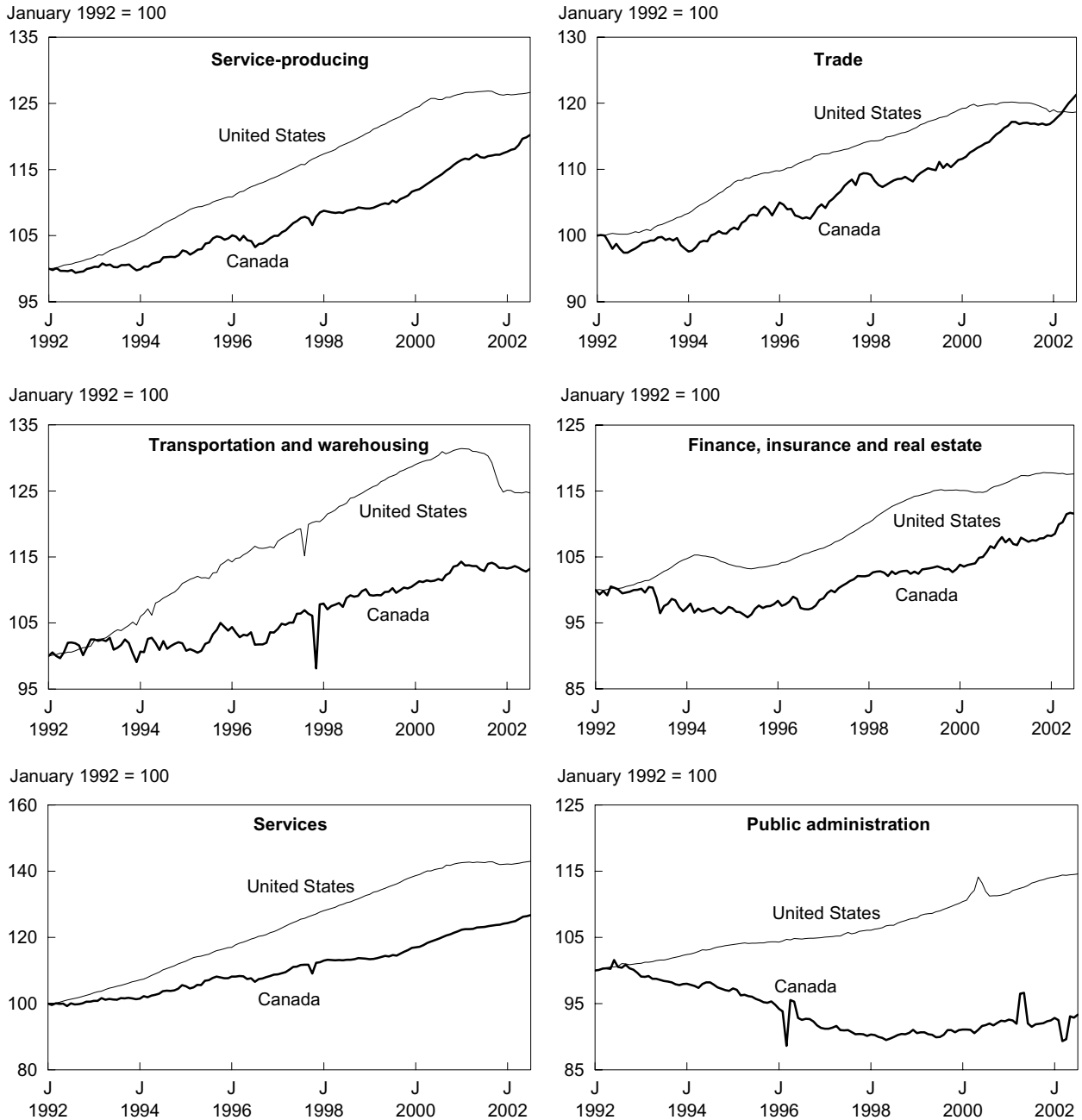
Sources: Labour Force Survey (Canada), Current Population Survey (United States)

**Chart A5: Index of employment by industry\***



Sources: Survey of Employment, Payrolls and Hours (Canada), Current Employment Statistics (United States)  
 \* See Industry concordance.

**Chart A5: Index of employment by industry\* (concluded)**



Sources: Survey of Employment, Payrolls and Hours (Canada), Current Employment Statistics (United States)  
 \* See Industry concordance.

# Older workers and the labour market

*Geoff Rowe and Huan Nguyen*

**O**LDER WORKERS have special concerns. They may be anticipating or already experiencing health problems involving either themselves or family members. They may have developed interests outside work that they wish to pursue. Both possibilities offer older workers good reasons to voluntarily withdraw from the labour market. However, some older workers may leave the labour force involuntarily. Older workers who remain in or return to the labour market may experience age discrimination, either by finding their job opportunities reduced, or having to accept lower-quality or lower-waged jobs (Hutchens 1988). Some may even conclude that further job search is fruitless. The resulting 'hidden unemployment' could resemble retirement (Osberg 1993; Samorodov 1999). On the whole, involuntary aspects of labour market withdrawal are ignored in analysis of retirement behaviour (Chan and Stevens 2001). This article evaluates the relative importance of retirement and involuntary job loss using self-reported reasons for job separation in cohorts of older workers (see *Cohort incidence rates*).

## Cohort career perspectives

Most often, analysts track changes in labour markets from month to month or from year to year as market conditions follow the ups and downs of the economy. An alternative, especially to describe the process whereby older workers wind up their careers, is to look at groups born in the same period—a cohort perspective. This article focuses on individuals who turned 50 years of age between 1976 and 1979. These cohorts' patterns of job separation and job acquisition in the years leading up to age 65 were reconstructed using data from 20 years of Labour Force Survey (LFS) files (see *Data source and definitions*).

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*The authors are with Social and Economic Studies Division. Geoff Rowe can be reached at (613) 951-8215 or [perspectives@statcan.ca](mailto:perspectives@statcan.ca). Huan Nguyen can be reached at (613) 951-3744 or [perspectives@statcan.ca](mailto:perspectives@statcan.ca).*

## Data source and definitions

### Job separations and acquisitions by reason

Comparing **Labour Force Survey** (LFS) responses for two consecutive months allows the identification of respondents who have just ended a period of employment and their self-described reasons for leaving. These reasons can be broadly categorized as involuntary ('laid-off' or 'own illness or disability') or voluntary ('retirement,' 'personal or family responsibilities,' 'dissatisfied with job' or 'other reasons'). Further, the labour force state into which respondents moved distinguishes between 'permanent' and 'temporary' layoffs. (However, in past years, temporary layoffs that were scheduled to last more than a year were not counted, and respondents who began a spell as 'unemployed, temporary layoff' may have been coded differently in subsequent months (for example 'not in the labour force, able to work'). Job switchers—respondents who moved from one main job to another, but who were employed at each consecutive LFS interview—can also be identified. Finally, respondents who had just returned to employment can be identified, and if that return took place within 12 months of the preceding job separation, the reason for the separation is available. Accumulating such data over years allows the reconstruction of the average experience of a cohort expressed as incidence rates for events classified by cohort, age and associated reasons (event types).

The cohort perspective is especially valuable in determining the chances of eventual retirement. In the early 1900s, when farming was still a major source of employment, many people continued to work until poor health or death intervened. The probability of ever retiring was low. In contrast, today's typical career is more likely to end in retirement. However, it is difficult to say how much more likely retirement is now than previously. To do so, it would be necessary to ask workers if they were withdrawing from the labour market because of retirement or ill health. Similarly, some older workers may lose their jobs before choosing to retire; some of these are better described as involuntarily unemployed than retired. Again, to classify them correctly, it would be necessary to determine their intention.

Men are traditionally seen as working continuously at a full-time job until retirement, at which point they leave the labour force and remain permanently retired. However, this picture is far from complete (Blau 1994). By tracking the cumulative incidence of job separation and job acquisition of selected cohorts between the ages of 50 and 65, it is possible to identify self-described retirement as well as other patterns of labour market activity. Classifying events according to the reason given for job separations provides some sense of workers' intentions (Table).

**Table: Job separation and acquisition between ages 50 and 65**

	Cohort incidence rates*			
	Job separation		Job acquisition	
	Men	Women	Men	Women
<b>Involuntary</b>	<b>1.98</b>	<b>1.55</b>	<b>1.53</b>	<b>1.14</b>
Layoff	1.71	1.32	1.37	1.02
Temporary	0.41	0.30	0.37	0.27
Permanent	1.30	1.02	1.00	0.76
Illness/Disability	0.27	0.23	0.16	0.12
<b>Voluntary</b>	<b>0.89</b>	<b>0.86</b>	<b>0.40</b>	<b>0.39</b>
Retirement	0.51	0.30	0.14	0.07
Family reasons	0.02	0.17	0.01	0.10
Dissatisfied	0.06	0.09	0.03	0.05
Other	0.30	0.29	0.22	0.17
<b>Job switchers</b>	<b>0.37</b>	<b>0.20</b>	<b>0.37</b>	<b>0.20</b>
<b>Job acquisition after 12 months</b>	...	...	<b>0.39</b>	<b>0.50</b>
<b>All</b>	<b>3.24</b>	<b>2.61</b>	<b>2.69</b>	<b>2.24</b>

Source: Labour Force Survey, 1976-2001

\* Averages for cohorts who turned 50 between 1976 and 1979; reasons for current or previous job separation as stated by respondents.

### Only about half of men and one-third of women ever retired

Retirement as a self-reported event appears to be relatively infrequent. Only about 51% of men and 30% of women in the selected cohorts had retired from a job by age 65. Seen another way, only about 16% of all job separations by men aged 50 to 65 were retirements; for women, the percentage was 12%. Therefore, in many cases, the job separation that ultimately ended a career must have been a layoff, an illness or disability, or a family-related event.

Estimates of job acquisition indicate that, by age 65, 14% of men and 7% of women had retired and then started a new job within a year—about 27% and 23% of retirees. This is a significant proportion. Trying to determine who would qualify as retirees in the traditional sense—those who retired between ages 60 and 65 from a job held since at least age 50—shows that only 20% of men and 10% of women fit the pattern.

### Older workers had considerable job turnover

The cumulative total of job separations between ages 50 and 65 averaged 3.2 for men and 2.6 for women. Since only one final separation is possible, the others must have been part of the normal labour market churn. Indeed, the majority of separations involved a layoff—more often permanent than temporary—and a considerable number involved job switching. Less often, job separations were associated with illness or disability, which would not necessarily have resulted in a permanent separation.<sup>1</sup> Overall, about 60% of all job separations, for both men and women, could be classified as involuntary. Other than retirement, family reasons and job dissatisfaction were cited least frequently; however, a considerable fraction of separations remained unclassified under 'other' reasons.

Since the overall incidence of job separation was substantially greater than one, subsequent job acquisition must have been considerable. This is indicated by the overall averages of 2.7 acquisitions for men and 2.2 for women between ages 50 and 65. These typically followed within 12 months of job separation. Most instances of involuntary job separation were followed by a job acquisition within 12 months. Job acquisition occurred less frequently after voluntary job separation and was least likely following a self-described retirement event.

### Employment attrition similar for older and younger workers

The high rates of job change experienced within these cohorts contradict the view that careers of older workers are characterized as either a process of gradual disengagement or a stable plateau preceding an abrupt final withdrawal. But does the apparent volatility of work among older workers result because the job-separation rates of older workers are particularly high?

One index of employment attrition is the proportion having lost a given job after a specified time. These one-year, job-separation rates are calculated for men



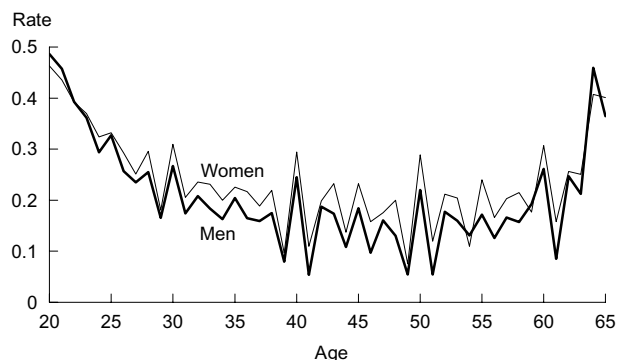
and women by single year of age averaged over a 25-year period—a period long enough to represent a full range of economic conditions. The rates are derived from estimates of those employed in a job for one year or more and are expressed as a proportion of those employed a year earlier and a single year of age younger.

From 30 to 60 years of age, workers had similar one-year rates of job separation averaged over multiple macro-economic cycles (Chart A). (Averaging over 25 years has the disadvantage of averaging over secular trends as well as economic cycles. In particular, the age profiles of employed women changed markedly over the period.) Employment attrition rates were highest for those under 25 and those over 60. In the latter case, one-year job-separation rates seemed exceptional only near the traditional age of retirement.

### Lower employment for older workers

If the declining labour market activity of older workers cannot be explained by rates of employment attrition that increase with age, then part of the explanation must lie in lower rates of re-employment. Re-employment ratios representing persons who are employed but with job tenure of less than one year complement one-year attrition rates. They do not measure flows into employment; rather, they represent jobholders with recently acquired jobs as a proportion of the population excluding longer-tenured jobholders. As with job-separation rates, these re-employment ratios are 25-year averages.

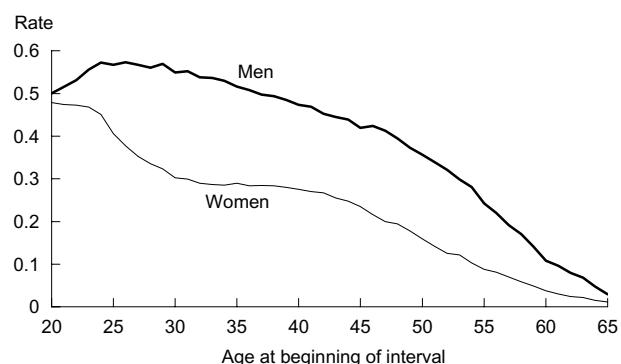
**Chart A: One-year job separation rates were similar from age 30 to 60.**



Source: Labour Force Survey, 1976-2001

The chances of being re-employed decline steeply from about age 25 and continue steadily downward thereafter (Chart B). Older workers experienced rates of job separation similar to those of much younger workers, and their separations were more often involuntary than not. Older workers seem to differ from younger workers more by their lower rate of re-employment than by their decision to retire.

**Chart B: One-year re-employment rates declined steadily after age 25.**



Source: Labour Force Survey, 1976-2001

### Retirement in perspective

Some economists have expressed concern about the effect inducements to early retirement in the form of generous pension entitlements may have on the employment decisions of older workers (Blöndal and Scarpetta 1998). Longer life expectancy coupled with ever-earlier retirement is seen as threatening the actuarial soundness of defined-benefit pension plans. With longer lives but shorter careers, retirees draw benefits for a longer time while contributing to the plan for a shorter time.

Job changes at career-end suggest that barriers or disincentives to re-employment for older workers should also be of concern. Among the reasons for job separation, only retirement seems to express an intention to withdraw from the labour market. And, since only a bare majority of men and a minority of women explicitly retired, many older workers seem to be interested in continued employment.

### Cohort incidence rates

The simplest way of calculating the average cumulative number of job separation and acquisition events within a cohort would be to directly track the number of events through time. In the case of the cohorts studied here, this would involve stepping through historical LFS files to count events that occurred to 50 year-olds in 1976-1979, to 51 year-olds in 1977-1980, and so on up to age 65. The final step would be to divide the cumulative total of events by the cohort size at the outset (that is, by the initial number of 50 year-olds).

This approach has its pitfalls. Official population estimates show that the cohort aged 50 in 1976-1979, resident in Canada, grew by 6.6% due to immigration before its 65th birthday, but also declined by about 1.3% due to emigration, and about 13.7% due to mortality. Thus, the cohort tracked in the LFS files is a moving target. It is therefore preferable to use demographic techniques that have been developed to estimate the cumulative mean number of events occurring in a specified population over time. Examples include lifetime births per woman or average car repair claims in a warranty period, as well as labour market events (Borgan and Hoem 1988; Lawless 1995). These techniques accommodate data from a population

open to migration. In addition, the techniques allow the use of cohort mortality data to improve the estimates and are robust to misstatements of age. This would affect direct counts of events.

The demographic approach requires three steps to estimate the incidence of job separation: At each cohort age and for each specified type of event, estimate the number of events per cohort member. Then, for each target age, multiply the conditional incidence rates by the corresponding probability of surviving from the initial age to the target age. Finally, cumulate the mortality-adjusted incidence rates over the age range. To obtain the age-specific incidence of job acquisition, the first estimation was for age-specific probabilities of remaining jobless for 12 months following a job separation of each type. Then the job acquisition incidence was estimated multiplying by each mortality-adjusted job separation incidence and by the corresponding probability of acquiring a job within 12 months (that is, the complement of the probability of remaining jobless for 12 months). These mortality-adjusted job acquisition incidences were then also cumulated over the age range.

### Note

1 Older workers typically had one-year job separation rates as high as those of much younger workers. A similar observation can be made focusing exclusively on involuntary separations. A study using administrative data showed that rates of permanent layoff between 1978 and 1994 were similar among age groups (Statistics Canada 1998). For example, the 17-year average annual permanent layoff rate was 6.3% for workers aged 55 to 64, and 6.4% for those aged 35 to 44.

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# Men 55 and older: Work or retire?

Roman Habtu

**S**LOW POPULATION GROWTH has made the population 55 and over an important potential source of labour. Nearly one-third of Canada's adult population in 2001 was at least 55. The relative size of this group is projected to increase to 40% by 2026, primarily because the baby boomers are aging.

Public attention is generally focused on the employed and unemployed, and relatively little attention is paid to those who are not active in the labour market (see *Data sources and definitions*). The inactive, however, are a potential source of labour. For example, when the economy is expanding, many people who have given up looking for work are drawn back into the labour market.

As the baby boomers gave way to smaller generations, labour force growth became fuelled by immigration and the growing participation of women. Since the participation rates of women are approaching those of men, this potential source of growth no longer exists. The sources remaining are immigration, which is a well-studied topic, and the older inactive, which is not.

What are the characteristics of men 55 years and over who are no longer active in the labour market, and what are their reasons for leaving their last job? Is inactivity 'voluntary' (retirement, personal or family responsibilities) or 'involuntary' (disability, layoff, or other economic conditions)?<sup>1</sup> Are international trends comparable (see *International comparisons*)? These questions address the feasibility of the older inactive as a source of labour.

## Labour market inactivity rising among older men

Labour market inactivity varies over the life cycle. It is typically high for youth (15 to 24) attending school, and low during the active working years (25 to 54).

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*Roman Habtu is with Labour and Household Surveys Analysis Division. She can be reached at (613) 951-3830 or [perspectives@statcan.ca](mailto:perspectives@statcan.ca).*

## Data sources and definitions

The **Labour Force Survey (LFS)** is a monthly household survey that collects information on labour market activity from persons 15 years of age and over. The LFS divides the working age population into three mutually exclusive categories: employed, unemployed and not in the labour force.

**Labour market inactivity** refers to persons who are neither employed nor unemployed.

**Labour market inactivity rate**, also referred to as the **economic inactivity rate** (see *International comparisons*), is inactive persons as a percentage of the population in the same age group.

The **short-term inactive** are individuals whose last employment ended in the previous 12 months. The **medium-term inactive** ended their job in the previous 13 to 60 months; and the **long-term inactive**, 61 or more months ago.

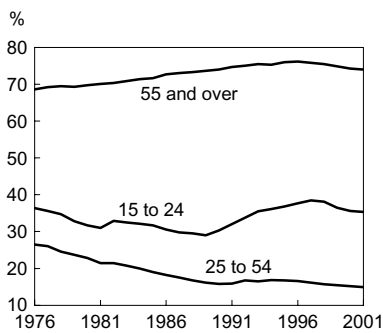
The detail the LFS collects about those not in the labour force depends on the length of time the individuals have been inactive. For those who became inactive in the previous 12 months, detailed reasons for leaving last job (such as retirement, personal or family responsibilities, or economic conditions related to the employer or the economy) are collected, as well as industry, occupation, and class of worker status of last employment. Educational attainment is available for all, regardless of length of inactivity.

**OECD Labour Force Statistics** is an annual publication providing detailed labour market information based on the national statistics of member countries. The data series in the publication conform with the international definitions adopted by the ILO/OECD. Nonetheless, important conceptual and methodological differences exist in the statistics compiled by different countries (for example, the labour force in the United States and the United Kingdom refers to persons 16 years and over). International comparisons must therefore be made with caution and regarded only as providing approximate trends.

Inactivity rises continuously in later years (55 and over) and depends on a range of personal, economic and social factors. While labour market inactivity among youth is generally temporary, inactivity among older workers is often a permanent withdrawal from the labour market.

From 1976 to 2001, the inactivity rate among workers aged 25 to 54 dropped 12 percentage points (from 27% to 15%), largely because of the increased participation of women (Chart A). By contrast, the rate among those 55 years and over increased by 5 percentage points (from 69% to 74%).

**Chart A: The labour market inactivity rate is highest for those 55 and over.**



Source: Labour Force Survey

The growing inactivity of the older population is caused primarily by the falling participation of older men. The growth in inactivity is concentrated among men 55 to 64 (Chart B). Some of the increase can be attributed to institutional factors, such as the lowering of the minimum age for drawing benefits from the Canada and Quebec Pension Plans in the late 1980s, the recession of the early 1990s (which affected older workers particu-

larly), government downsizing, and the use of early retirement for workforce adjustment (Sunter 2001).

On the other hand, the rising tide of labour participation among women extended to the older age groups. Labour market inactivity fell for women aged 55 to 64 while it remained stable for those 65 and over.

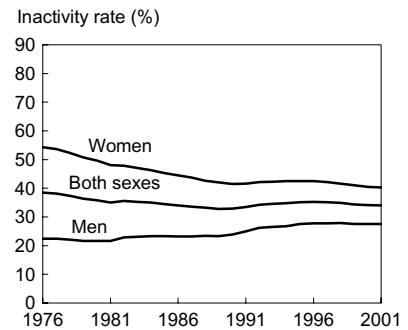
**A focus on men 55 to 59**

Although the decision to retire is a personal one based on a number of factors, a general trend to earlier retirement (increased inactivity) could have widespread consequences as the population ages.<sup>2</sup> The labour market would lose a wealth of experience and potential economic contribution if inactivity continues to rise among those aged 55 to 59. If inactivity were involuntary, men in this age group would face financial consequences since 60 is the minimum age for receiving Canada or Quebec Pension Plan benefits. According to life expectancy calculations, a 55 year-old man can expect to live, on average, an additional 20 years. Even when adjusted for disability, the calculation shows that he has on average 10 more years of disability-free life expectancy.<sup>3</sup>

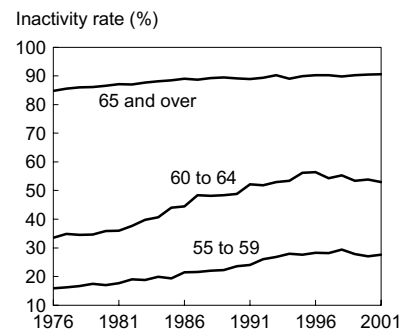
At some age, attachment to the labour market dramatically declines or ceases completely. Those 70 years and over would largely be in this category.<sup>4</sup> Thus one would expect the share of inactivity among those 55 and over to be heavily weighted by older Canadians approaching permanent withdrawal from the labour market. However, in the 55 to 69 age group, the largest increase in labour market inactivity came from those aged 55 to 64. The proportion of

inactive men 55 to 59 rose by 2.5 percentage points between 1976 and 2001, while their population share increased only 0.8 points (Table 1). The population share of those 60 to 64 was unchanged, but the proportion inactive rose by 2.2 points. For those 65 to 69, the proportion remained constant.

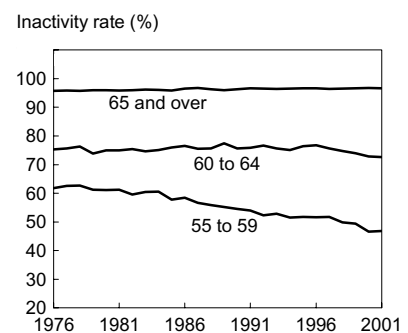
**Chart B: Labour market inactivity has been rising for men and falling for women.**



**...especially for men 55 and over**



**...and women 55 to 59**



Source: Labour Force Survey

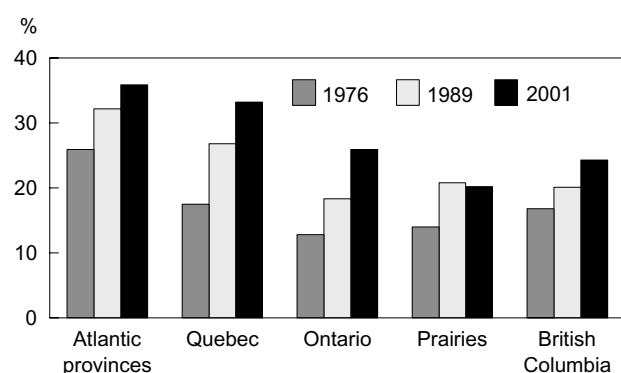
**Table 1: Men not in the labour market, by age**

	Population		Inactive	
	1976	2001	1976	2001
			'000	
15 and over	8,454.0	12,098.0	1,890.0	3,328.8
55 to 69	1,263.1	1,950.7	477.5	996.9
55 to 59	493.6	795.9	78.4	219.7
60 to 64	433.9	621.0	145.4	329.4
65 to 69	335.6	533.8	253.7	447.8
			%	
15 and over	100.0	100.0	100.0	100.0
55 to 69	14.9	16.1	25.3	29.9
55 to 59	5.8	6.6	4.1	6.6
60 to 64	5.1	5.1	7.7	9.9
65 to 69	4.0	4.4	13.4	13.5

Source: Labour Force Survey

The labour market inactivity rate of men aged 55 to 59 increased from 16% in 1976 to 28% in 2001, after peaking at 29% in 1998 (Chart B). In 1976, 78,000 men 55 to 59 were inactive in the labour market. By 2001, the number had climbed to 220,000. This is more than the annual average influx of immigrants (212,000) between 1997 and 2001.

The inactivity rate has risen in all regions since 1976 (Chart C). The rate falls from east to west, with the Atlantic region having the highest and the Prairies the

**Chart C: Labour market inactivity rose in all regions, remaining highest in the east.**

Source: Labour Force Survey

lowest in 2001. Although the inactivity rate is affected by regional labour market conditions, it is also influenced by myriad personal, social and economic factors.

Given the long-term increase in labour market inactivity among men 55 to 59, what are their characteristics and what are the reasons for leaving their last job? Are the recent declines a reversal of long-term trends? Are these trends observed in other countries?

### Most have been out of the labour market for more than a year

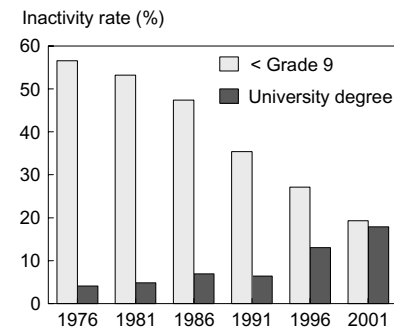
Even though factors underlying inactivity may have changed, a majority of inactive men 55 to 59, both in 1989 and in 2001, ended their last job more than a year earlier. The short-term inactive proportion dropped from 26% in 1989 to 19% in 2001, while the proportion who worked in the previous 13 to 60 months remained virtually unchanged (40% in 1989 and 42% in 2001). The proportion of long-term inactive rose slightly (from 34% in 1989 to 40% in 2001).

This rise may signal a troubling trend. The long-term inactive would have left at age 50 to 54, implying that relatively young workers may be leaving the labour force at a time of slow population growth. Furthermore, a majority (93%) of inactive men in 2001 did not want a job, according to the Labour Force Survey.<sup>5</sup> A recent study also showed that over half of 55 to 59 year-olds who voluntarily ended their job were still not working two years later, indicating that they may be leaving permanently (Pyper and Giles 2002).<sup>6</sup>

### Education

The past 25 years have witnessed enormous change in the educational profile of inactive men aged 55 to 59. In the 1970s, labour market inactivity was almost exclusively the domain of less-educated men (Chart D). Now the inactivity rate of university-educated men in this age group is nearly equal to that of men with only an elementary school education. The gap between those with a university degree and those with eight years or less education was over 50 percentage points in 1976. By 2001, it had narrowed to less than 2 percentage points with 18% of inactive men in this age group holding a university degree. In the same year, the proportion of men with eight years or less of education had fallen to less than 20% from nearly 60% in 1976.<sup>7</sup>

**Chart D: The educational attainment of inactive men 55 to 59 has risen over time.**



Source: Labour Force Survey  
Note: The education variable was revised in 1990. Only the above two are consistent.

These improvements reflect the rising educational attainment of the population as a whole. It is also possible that those with higher levels of education have access to better pensions that make early retirement more attractive.<sup>8</sup> Regardless of what prompts labour market inactivity, its increase among an age group characterized by both experience and a rising level of educational attainment indicates the loss of a skilled labour resource.

### The short-term inactive

The short-term inactive make up nearly 20% of those currently inactive in the labour market. Although small in number, the analytic importance of this group lies in the availability of information about their previous job and their reason for leaving it.<sup>9</sup> The occupation, industry, and reason for leaving may provide clues to prolonging their attachment to the labour market.<sup>10</sup> Furthermore, in contrast to those who have been inactive longer, the short-term inactive may be able to re-integrate into the labour market

relatively quickly. Compared with all inactive men aged 55 to 59 in 2001, twice as many of the short-term inactive stated that they wanted a job.

### Most were in the private sector

The share of short-term inactive men previously employed in the private sector rose more than for any other group over the 1989 to 2001 period. While both the public and private sectors lost proportionately more men aged 55 to 59 to labour market inactivity in 2001 (25% and 61% respectively) than were employed in these sectors in 2000 (17% and 54%), the public sector was hit harder proportionately (Table 2).<sup>11</sup> The proportion recently self-employed also rose in 2001 (14%).<sup>12</sup>

The rise in inactivity among those who had been self-employed is a bit puzzling given that in 2000 the median age of retirement for self-employed men was higher than the median for all men (66.4 versus 61.8). Self-employment increased over the 1988 to 2000 period among men aged 54 to 58 (that is, the years and age in which the short-term inactive were working). Self-employment may therefore have been a transition from employment to labour market inactivity. Older workers may use self-employment to supplement pension income or simply to remain in the labour market prior to permanently exiting.

**Table 2: Short-term inactive men by attributes of last job**

	Short-term inactive men 55 to 59		Employed men 54 to 58	
	1989	2001	1988	2000
	%			
<b>Class of worker</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Employees	87.4	86.0	75.2	70.7
Public sector	28.4	24.8	20.5	17.2
Private sector	59.0	61.2	54.7	53.5
Self-employed	12.5	14.0	24.8	29.3
<b>Industry</b>		<b>100.0</b>		<b>100.0</b>
Goods-producing		42.0		36.5
Service-producing		58.0		63.5
<b>Occupation</b>		<b>100.0</b>		<b>100.0</b>
Management		10.4		15.7
Business, finance and administrative		8.6		10.2
Natural and applied sciences and related; health; art, culture, recreation and sport*		9.4		10.7
Social assistance, education, and government services		9.9		7.2
Sales and service		12.4		15.7
Trades, transport and equipment operators		29.1		25.9
Unique to primary industry		7.9		5.9
Unique to processing, manufacturing and utilities		12.4		8.8

Source: Labour Force Survey

\* Combined because of small sample sizes.

A majority of the short-term inactive were last employed in services. However, in 2001, goods industries lost proportionately more men aged 55 to 59 to labour market inactivity (42%) than were employed there in 2000 (36%). Half of the short-term inactive in goods industries said they left for reasons of retirement. An even higher proportion (64%) of those previously employed in manufacturing said they left for this reason (figures not shown).

The highest proportion of the short-term inactive came from trades, transport and equipment operators (29%), followed by sales and service; processing, manufacturing and utilities (12%); and occupations in social science, education and government services (10%). However, for four occupations—processing, manufacturing and utilities; trades, transport and equipment operators; primary; and social science, education and government services—the share of the short-term inactive was significantly higher than their share among those employed in these occupations in 2000.

The proportion of short-term inactive men in social science, education and government service occupations may reflect early retirement trends in the public sector. Three-quarters of the men in these occupations cited retirement as the reason for leaving their last job. Furthermore, these occupations had the lowest median retirement age (57.3) in 2000 and one of the largest proportion of employees 55 and over (Labour Force Survey 2001).

### Retirement the primary reason for leaving last job

In 2001, half of the short-term inactive cited retirement as the reason for leaving their last job,

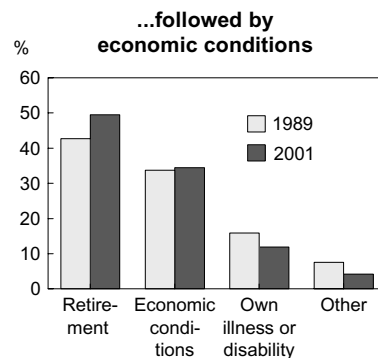
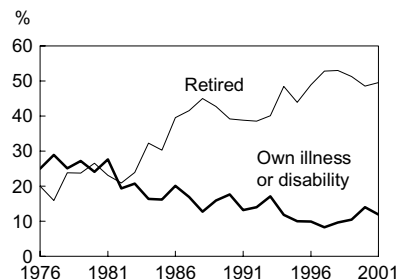
compared with only 20% in 1976 (Chart E). The shift to early retirement could be influenced by a number of factors, ranging from personal (such as health, income, and leisure interests) to social and economic (the state of the economy, labour demand, and social policies). Pension coverage would be an important element of this decision; higher pension plan coverage rates in Newfoundland and Labrador and Quebec have been linked to early retirement trends in these regions (Kieran 2001).<sup>13</sup>

As well, those who cited retirement as a reason for leaving their last job were more likely to be highly educated, and it has been shown that pension coverage increases with

educational attainment (Morissette and Drolet 2001). While 18% had a university degree in 2001, the rate rose to 23% for those who had retired, reinforcing the possibility of higher pension benefits among this group.

Tax data demonstrate the increasing importance of pensions; average pension income for all men 55 to 59 increased more than \$3,000 between 1989 and 1999 while income from employment declined (Chart F).<sup>14</sup> Income from self-employment also rose, further strengthening the suggestion that this may provide a transition mechanism for men in this age group. Other income and government transfers increased as well, while income from investments declined.<sup>15</sup>

**Chart E: Retirement as a reason for leaving the labour market has been rising...**



Source: Labour Force Survey

### Economic conditions also important

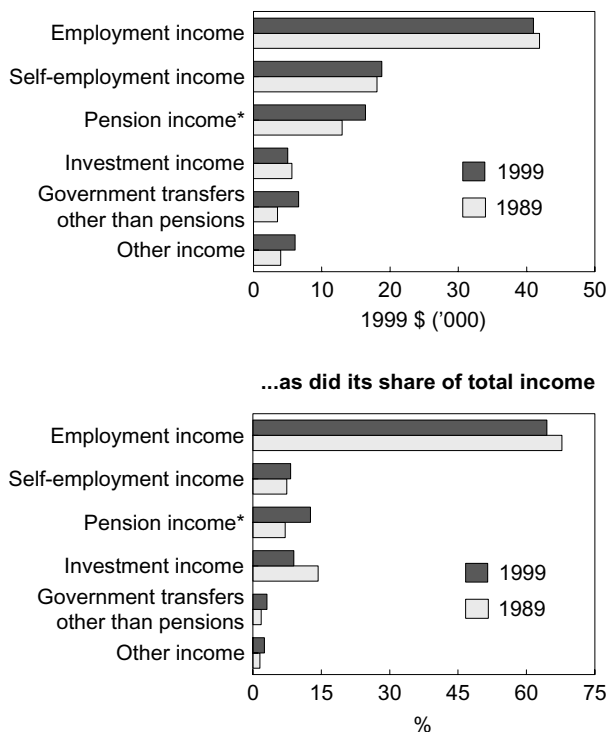
Economic conditions, the second most important reason for leaving the last job (Chart E), were cited by over one-third of the short-term inactive in 2001—a proportion almost unchanged from 1989, an expansionary year. Recent studies have also shown that job separation among men 50 to 65 was largely due to involuntary separation caused by layoff (Rowe and Nguyen 2002).

Among those in 2001 who left their last job for economic reasons, 13% cited business conditions (including business closing down or sold), 12% the end of a seasonal job, and 5% the end of temporary or contract work.

### Disability

In 1976, one in four recently active men 55 to 59 cited own illness or disability rather than retirement as the reason for leaving their last job (Chart E). By 2001, this proportion

**Chart F: The average pension income for men 55 to 59 rose between 1989 and 1999.**



Source: Canada Customs and Revenue Agency

\* Includes C/QPP benefits, other pensions or superannuation, annuity and RRSP income.

had dropped by half to 12%. One explanation for the trend may be the overall improvement in health across the population. Another factor may be related to the positive association between education and health. A relatively low proportion of those with a university degree cited disability as a reason for leaving their last job (11% compared with 18% overall).

The Canada and Quebec Pension Plans (C/QPP) provide the single largest disability program in Canada. The CPP disability benefit (CPP-D) is the only portion of the CPP other than the survivor benefit payable prior to age 60. Workers who meet the medical requirements and have contributed to CPP in four of the previous six years are eligible. Over the 1981 to 2001 period, the CPP-D rate (CPP-D beneficiaries as a percentage of the labour force) for men 55 to 59 increased by over 2 percentage points (from 3.5% to

### International comparisons

In the United States, the inactivity rate exhibited a pattern similar to Canada, rising for men and falling for women aged 55 to 59 during the 1980 to 2000 period (Chart G). For men, the inactivity rate rose in 2000 following a period of decline after its peak in 1994.\*

The United Kingdom showed the same pattern. Between 1984 and 2000, the overall inactivity rate rose 8% for men 55 to 59 and fell 6% for women.\*\*

In France, the labour market inactivity rate for men 55 to 59 rose from 19% to 34% over the 1980 to 2000 period while declining for women, thus narrowing the gap between the two.

In Germany, the inactivity rate for men aged 55 to 59 rose from 1980 to 2000. The rate peaked at 29% in 1994 before beginning a steady decline in the following year.

In Japan, the rate for men aged 55 to 59 is much lower than any of the G-7 countries and has continued to decline for both men and women.

In Italy, the reference population is men aged 50 to 59, and the decline is more recent, following an almost continuous rise since 1980. While falling in recent years, the 2000 rate is still almost double that in 1980.

\* The United States does not have the same population pressures as Canada. Between 1990 and 2000, the United States population grew by 13% compared with 11% in Canada (U.S., Census Bureau; Statistics Canada Annual Demographic Statistics, 2001).

\*\* In the United Kingdom, the term 'economic inactivity' is used to describe the state of the population not in the labour force. In recognition of this population as potential labour supply, a series of articles have recently focused attention on this issue (Barham 2002).

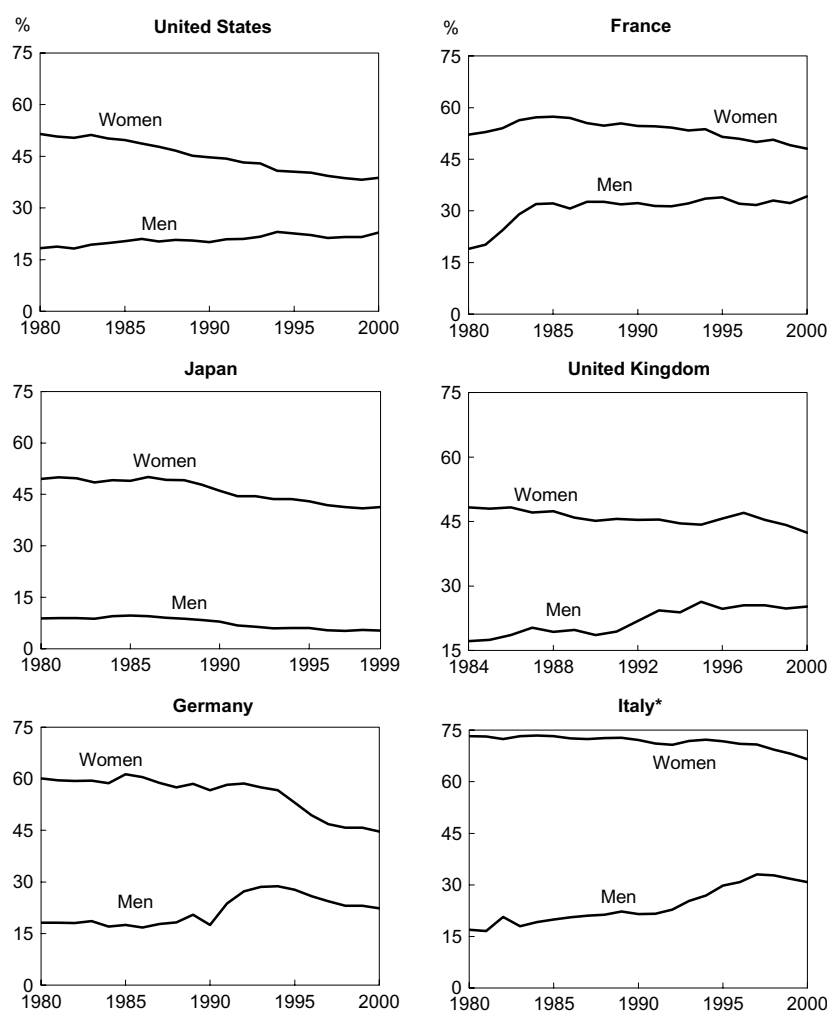
5.7%). The trend in CPP-D receipt is opposite that of disability reported in the Labour Force Survey, but the two rates are not comparable. First, the LFS does not ask the reason for being out of the labour force, only the reason for leaving the last job. Second, CPP-D receipt is for a smaller proportion than those who reported leaving work due to illness or disability.

### Conclusion

Men 55 to 59 no longer active in the labour market are an important source of potential labour supply in an era of slow population growth. Rising labour market inactivity among increasingly skilled older men poses a significant potential economic loss. Over the 1976 to 2001 period, recent cohorts of men inactive in the labour market demonstrated higher levels of



**Chart G: The labour market inactivity rate of 55 to 59 year-olds varied considerably by country.**



Source: OECD Labour Force Statistics

\* Age 50 to 59

educational attainment. The proportion with a university degree increased from 4% in 1976 to 18% in 2001, while the proportion with only grade 8 education fell from 57% to 19%.

Retirement is the primary reason for leaving the last job. In 2001, half of 55 to 59 year-old men who had worked over the previous 12 months cited retirement as the reason for leaving their last job, while a third claimed economic conditions. Fewer left because of illness or disability than in the past—this reason for inactivity dropped by nearly half between 1976 and 2001.

For all men 55 to 59, the average level and share of pension income rose over the 1989 to 1999 period. These trends further corroborate results indicating early retirement as a reason for labour market inactivity.

If labour shortages do develop in coming years, the incentive effects of public and private pensions, implicit taxes (for example, clawbacks, public pension adjustments) and other government transfer programs will bear examination.<sup>16</sup>

### Perspectives

#### Notes

1 The voluntary/involuntary categories are broad, general depictions of circumstances rather than rigid demarcations. In this study, voluntary refers to personal decisions in response to personal or labour market conditions. Retirement is included as voluntary because there is no statutory retirement age in Canada except for some small groups. Moreover, except for disability benefits, public pension plan benefits (Canada and Quebec Pension Plan benefits) cannot be collected prior to age 60. A penalty is incurred between age 60 and 64; full pension benefits are received only by those 65 and older (Kieran 2001). Involuntary labour market inactivity refers to factors beyond the individual's control, such as disability, layoff or other economic conditions.

2 The ratio of inactive to active adult life has grown over time due to increased life expectancy (Sunter 2001). In an environment of slow population growth, increased inactivity among men 55 to 59 can exacerbate this situation.

3 Disability-free life expectancy refers to life expectancy that is free of activity limitation. The disability-free life expectancy for men was estimated to be 65.5 years based on the 1996 census (*Health Reports, 2001 Annual Report*. Statistics Canada, Catalogue no. 82-003-XIE). These estimates will be updated following the complete release of the 2001 census results.

4 While many people, mostly men, continue employment after age 65, the majority are less than 70 (Duchesne 2002).

5 In the Labour Force Survey, the question is not asked of those who say they are permanently unable to work.

6 The study is based on the longitudinal Survey of Labour and Income Dynamics (SLID). Job refers to a career job, which is defined as a job with a 35-hour workweek held for at least eight years.

7 In 1990, questions pertaining to educational attainment in the Labour Force Survey were revised. Comparisons before and after 1990 must therefore be made with caution. The levels of education in the chart were included in the series prior to and after the revisions.

8 This needs to be qualified. Recent cohorts of men 55 to 59 who remained active in the labour market also had higher levels of education. Education may be one among a number of personal and social factors prompting a transition into labour market inactivity.

9 Since the redesign of the Labour Force Survey in 1997, detailed job information (occupation, industry, class of worker) is available only for those who were active in the previous 12 months.

10 About 60% of older workers, those 50 and over, who involuntarily ended their career job returned to employment within 24 months (Pyper and Giles 2002). This suggests that the short-term inactive may be more likely to return to the labour market.

11 The short-term inactive were employed in the previous 12 months (that is, 2000 for those who became inactive in 2001) and were one year younger (hence the reference to 54 to 58 years for this population group).

12 It would be interesting to explore further whether the length of inactivity varies by type of previous employment. A study using SLID found that a higher proportion of older workers who left self-employment returned to employment within two years (Pyper and Giles 2002).

13 In the case of Newfoundland and Labrador, the high early retirement rate was also associated with a high provincial unemployment rate.

14 Demographic trends did see an increase in the share of men 55 to 59 in the population (0.3 percentage points from 1989 to 1999). However, their share in the total population receiving pension income also increased by the same proportion.

15 Government transfers include Employment Insurance benefits and tax exempt income in 1999, and Unemployment Insurance benefits and family allowance in 1989.

16 For a more complete discussion on this topic, see Morley Gunderson, *Income Security Programs—Simulations of Incentive Effects of Private and Public Pensions*. Human Resources Development Canada Evaluation Report SP-AH086-05-01E, May 2001. Internet: <http://www11.hrdc-drhc.gc.ca/edd-pdf/siepp.pdf> (accessed December 6, 2002).

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