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Narrowing the Gender Participation Gap

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- » This is a global phenomenon, with female participation rates rebounding more than male participation across all major economies since the pandemic.
- » Globally, the narrowing of gender gaps in labour force participation since 2019 has added \$1.5 trillion to global income.
- » Tight labour markets, a rise in the cost of living, and more flexible working conditions are all partly responsible for the change.

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Narrowing the Gender Participation Gap

BY ELISE BURTON, DAWN HOLLAND, OLIA KURANOVA AND BARBARA TEIXEIRA ARAUJO

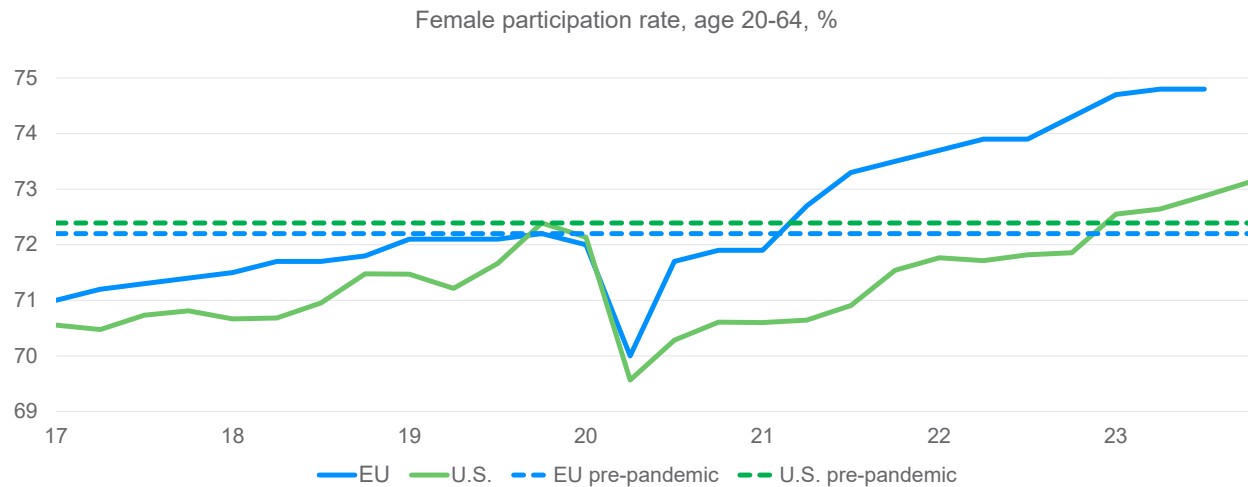
- » Gender labour force participation gaps are narrowing across the world as more women join or rejoin the labour force.
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The issue of gender inequality, particularly in the realm of labour markets, continues to be a pervasive challenge in societies worldwide. In recent years, progress has been somewhat overshadowed by a series of global crises that have dominated the world stage. The COVID-19 pandemic, supply-chain disruptions, hot conflicts in Ukraine and the Middle East, the inflation surge, the sharp tightening in monetary policy, and escalating climate events have collectively diverted attention—as well as resources—away from the gender inequality discourse. Attesting to that, Google Trends data show that the number of searches for terms such as “gender inequality”, “gender pay gap”, “unequal pay”, and “female labour force participation” have all more than halved since peaking at the beginning of 2022. Yet despite moving out of the spotlight, progress on the matter has continued in the background. Especially welcome is the sharp increase in the female labour force participation rate during the last four years as more women have joined or rejoined the labour force (see Chart 1).

While the female participation rate fell at the onset of the COVID-19 pandemic as countries went into lockdown and many people lost their jobs, the recovery has been swift. Impressively, the female participation rate had already risen above its pre-pandemic level in the European Union in 2021 and in the U.S. in 2022. Progress in the EU has been especially remarkable, with the female labour force participation rate rising almost 3 percentage points in three years.

The labour force participation rate, in this context, is defined as the proportion of the working-age population (age 20 to 64) that is either employed or actively seeking employment. Historically, the share of women in the labour force has been low, much lower than that of men. This stems from traditional gender

Chart 1: Female Labour Force Participation Has Rebounded Post-Pandemic



Sources: Eurostat, BLS, Moody's Analytics

roles, lack of supportive policies such as parental leave or childcare, workplace discrimination, and limited educational opportunities, particularly in science, technology, engineering and mathematics. For instance, in the U.S., the labour force participation rate for women was only about 34% in 1950 compared with around 73% today.

Despite the significant progress made in the past decades in the U.S. and worldwide, the participation rate for women remains below the participation rate of 83% for men—which means that there is a gap of around 10 percentage points between the percentage of men and women in the U.S. who are either working or looking for a job. This is what we call the gender labour force participation gap; in other words, it is a measure that indicates the difference in participation rates between men and women.

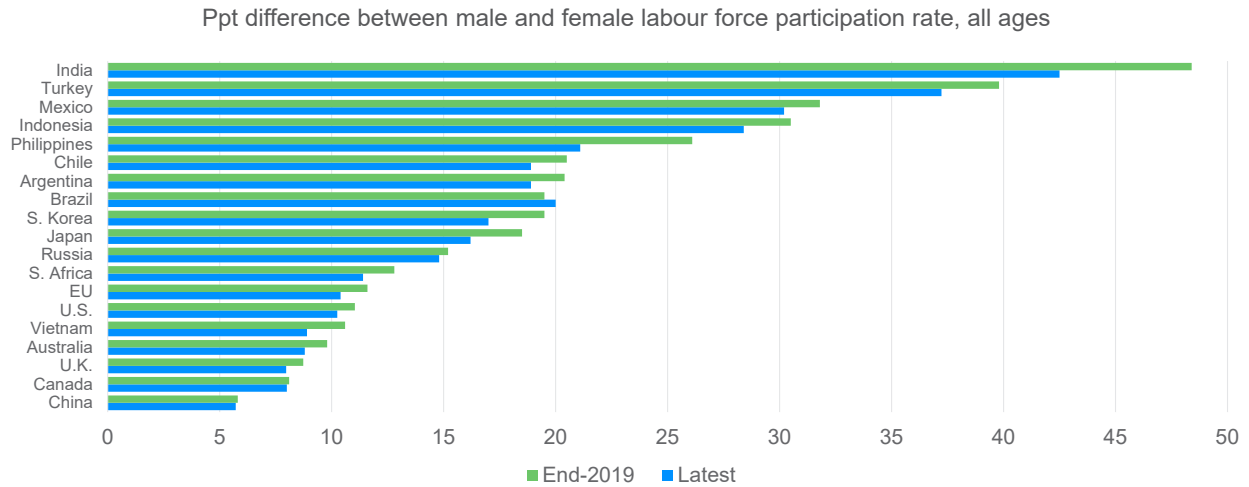
Interestingly enough, the post-pandemic surge in female labour force participation was not mirrored by a comparable increase in the male participation rate, resulting in a further narrowing of the gender participation gap and supporting the fight against gender inequality. Even more promising is that this has been a global phenomenon, with significant progress seen not only in the U.S. and Europe, but in most major countries in Asia and Latin America as well (see Chart 2).

Granted, there are still significant disparities across countries. For example, while the largest post-pandemic declines in the gender gap have been observed in India and the Philippines, the gender gap in those countries remains extremely wide—in India's case, more than four times the U.S. or the EU. These larger gaps can often be traced to traditional gender roles and insufficient supportive policies for women in the workforce. Economies heavily reliant on industries traditionally dominated by men also tend to have larger gaps. By contrast, countries with larger service sectors, which often provide more flexible and part-time work options, tend to have smaller gaps.

Why has the gap narrowed?

Progress in gender equality has been ongoing for several decades, which means that some further narrowing of the gender participation gap was to be expected in the past years. However, the post-pandemic decline

Chart 2: Gender Gaps in the Labour Markets Have Narrowed

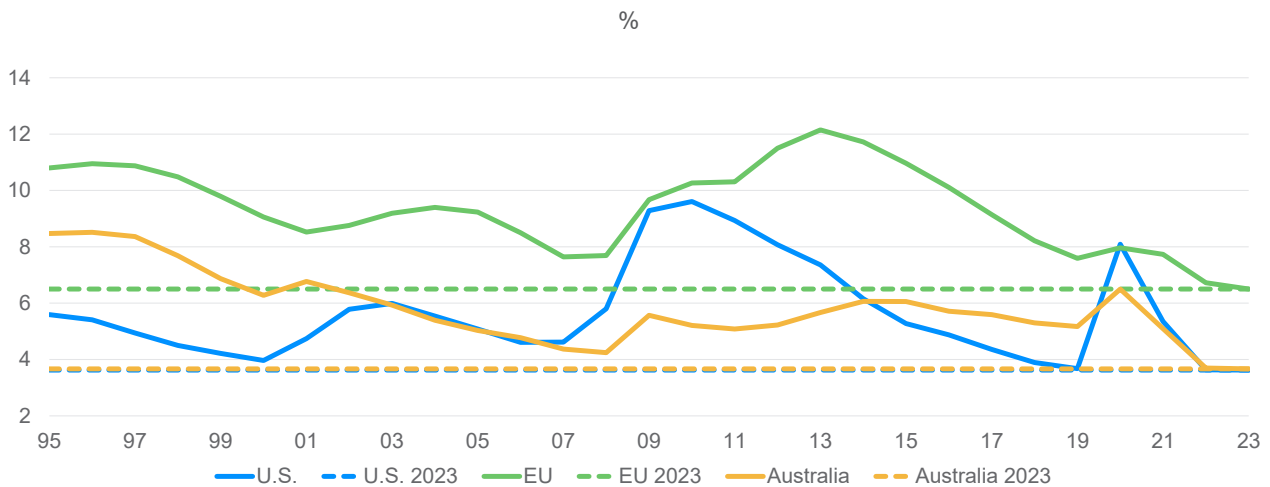


Sources: Eurostat, International Labour Organization, OECD, Moody's Analytics

has been especially sharp, with the slope of the curve much steeper than the pre-pandemic trend. We have identified three key forces behind the gains: the very tight labour markets across the globe, the broad-based increase in living costs due to the surge in inflation during the past two years, and working conditions that have become more flexible because of the shift towards remote working.

First, the post-pandemic period has been marked by an unusually tight labour market. Since 2020, the unemployment rate has fallen significantly across the globe, including in the U.S., where it has been less than 4% for around two years (see Chart 3). The unemployment rate has not been this persistently low since the late 1960s.

Chart 3: Unemployment Rates Are Near Historic Lows

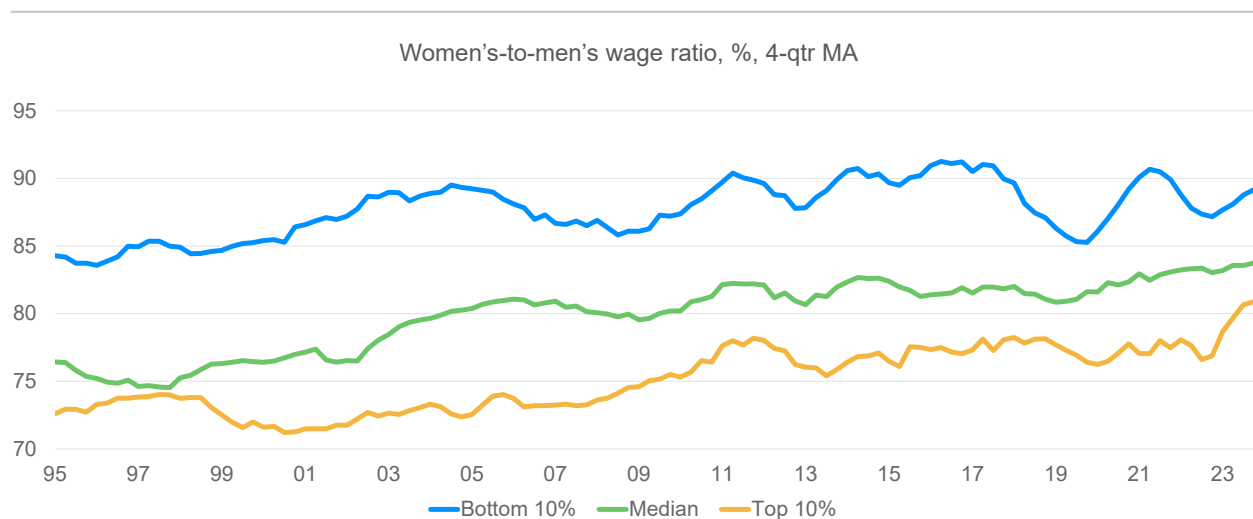


Sources: BLS, Eurostat, Australian Bureau of Statistics, Moody's Analytics

Increased competition for workers pushed companies to increase wages and other incentives (benefits such as childcare or family leave, or more flexible work arrangements) to attract workers. Consequently, wage growth soared, and median wage growth was consistently north of 5% on a year-ago basis for the first time since the 1990s. Higher wages and persistent wage growth are natural incentives for new entrants into the labour market.

Wage growth was relatively consistent between men and women in the U.S. However, as male labour force participation has been on a decline, similar wage pressures allowed women to make progress in closing the wage gap. Before the pandemic, the women's-to-men's wage ratio had moved little since around 2010. Since the pandemic, it has drifted upwards, driven by a notable increase at the top of the earnings spectrum, reflecting women's increased presence in high-paying industries (see Chart 4).

Chart 4: Recent Movement in the Wage Gap Coming From High-Wage Earners



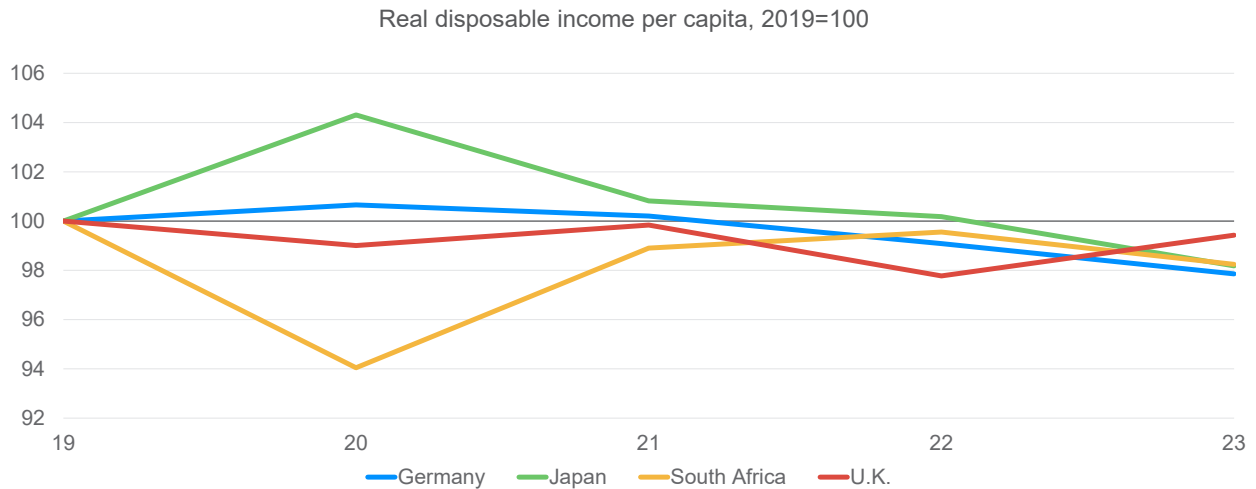
Sources: BLS, Moody's Analytics

Second, the past two years witnessed a dramatic escalation in the cost of living across the globe. Supply shocks related to the COVID-19 pandemic and to Russia's invasion of Ukraine have triggered significant increases in prices of manufactured goods, energy and food, while at the same time bringing about a perfect storm in labour markets resulting in labour shortages across numerous economic sectors. The compounding effect of these shocks has significantly amplified global inflation pressures, leading to a deterioration in disposable income (see Chart 5).

Adding fuel to the fire, central banks were forced to raise interest rates in one of the fastest and most aggressive global tightening cycles in modern history to tame inflation, further straining household finances.

The double whammy of high inflation and high interest rates exerted significant pressure on household budgets. As a result, many families were forced to seek additional income sources, leading to an increasing number of individuals joining the labour force. Single-income households in particular found it progressively challenging to maintain their living standards, prompting a wave of new entrants, including a significant number of women, into the workforce.

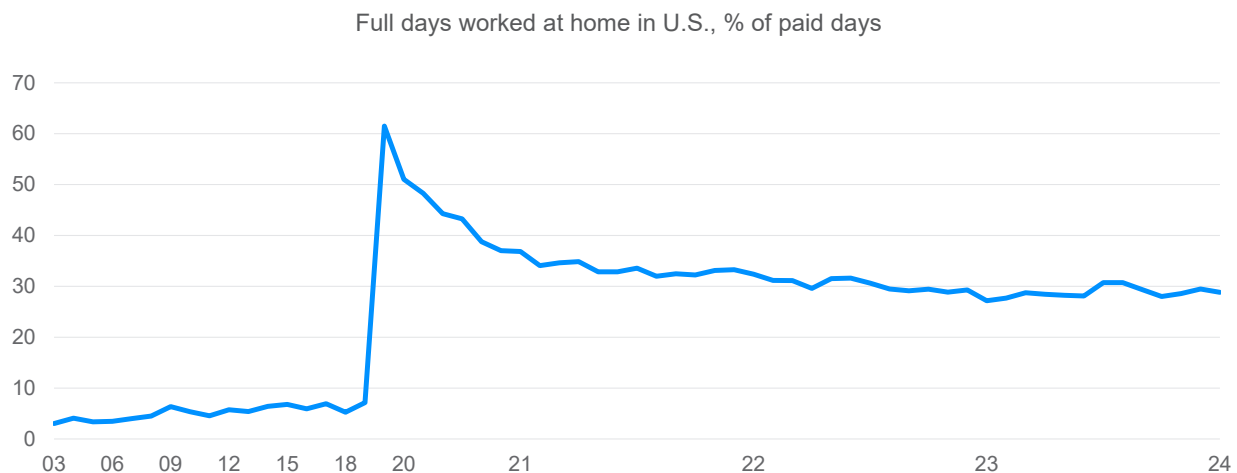
Chart 5: Incomes Have Been Squeezed



Sources: Eurostat, Japan Economic and Social Research Institute, United Nations, U.K. Office of National Statistics, Moody's Analytics

Third, our view is that the post-pandemic shift towards more flexible work arrangements, especially remote working, has acted as a significant pull factor into the labour market. Firms had to quickly adapt to working-from-home arrangements at the height of the pandemic. While the removal of mobility restrictions in 2021 has brought most people back into the workplace, several companies have decided to permanently switch to hybrid or remote work. As of early 2024, around 30% of paid days were worked at home in the U.S., compared with less than 10% prior to the pandemic (see Chart 6).

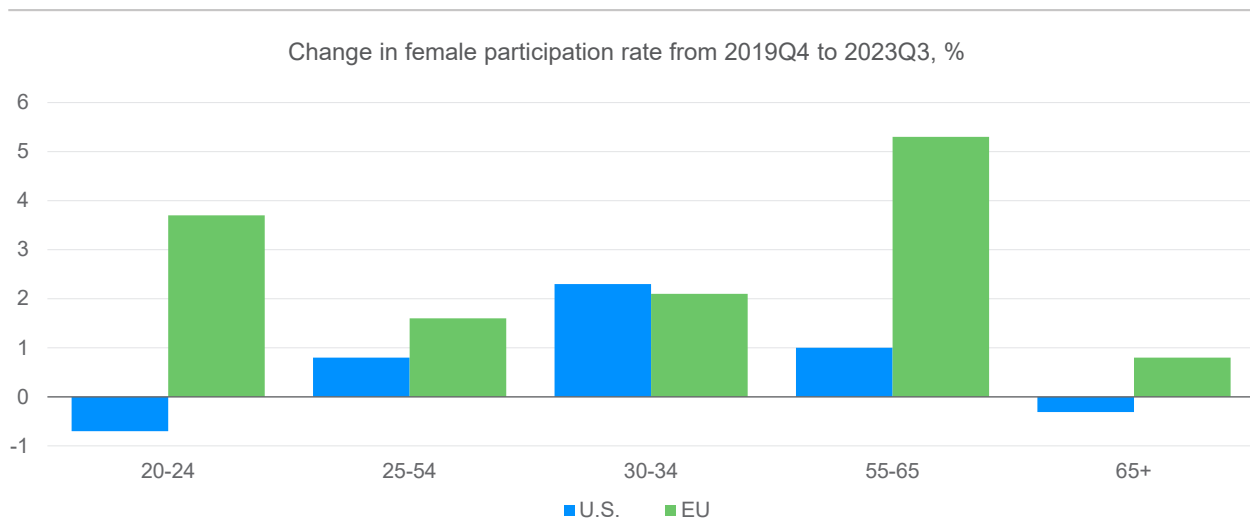
Chart 6: Pandemic Permanently Changed Attitudes Towards Remote Work



Sources: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731, Moody's Analytics.

This move towards more flexible working conditions is expected to have opened doors for some women, pulling participants into the labour market. Certain age groups are at the forefront of this shift. Women balancing career growth with early family life—the ones represented in the 30-34 age group in Chart 7—

Chart 7: Uneven Participation Gains Across Age Categories



Sources: BLS, Eurostat, Moody's Analytics

take centre stage, as working from home has allowed them to hold a job while caring for children. Crucially, women in this age cohort are likely also facing more acute financial pressures such as dealing with childcare and housing—a further motivation to look for a remote job amidst a cost-of-living crisis.

But women in the older cohorts who are potentially approaching retirement, dealing with health concerns, or caring for the elderly, may have also found the flexibility and reduced physical demands of remote work particularly appealing. Given the tightness of labour markets, they might also have seen an opportunity to seek additional income sources in the face of inadequate retirement savings, especially in Europe.

In contrast, for the younger cohort, specifically women age 20 to 24, the sharp increase in labour force participation in the EU likely owes more to the surge in job opportunities due to labour shortages and low unemployment rates, rather than the advent of remote work.

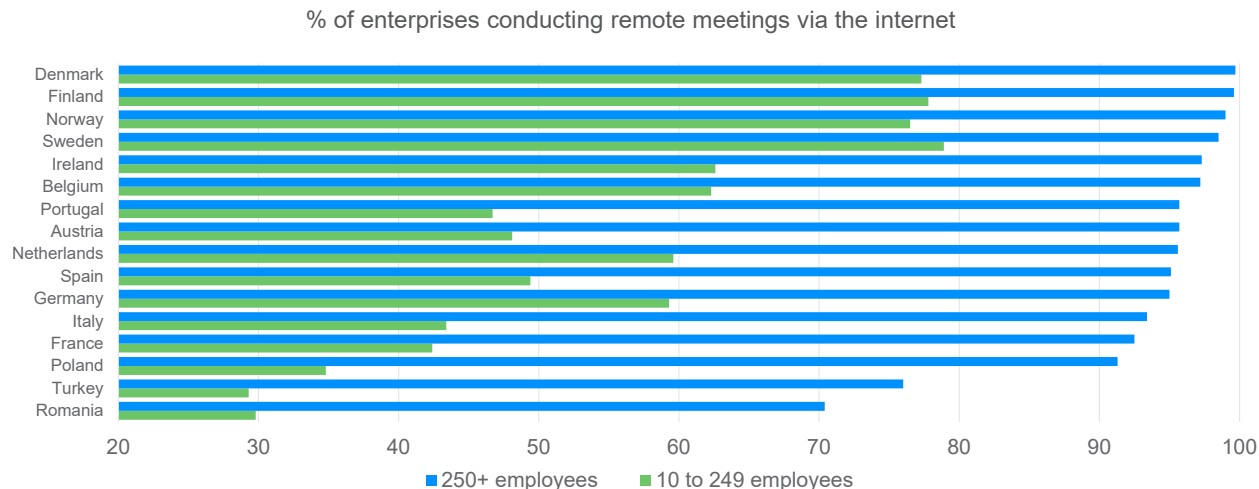
Looking at the broader picture, while this shift in attitude towards remote work has been observed globally, with large corporations leading the charge in adapting to a different business environment, there is still a lot of divergence across countries owing to cultural norms. Zooming in on European countries, we see that while remote business meetings are conducted by the large majority of companies in the Nordics, they are still not as popular in large countries such as France and Italy (see Chart 8).

In France and Italy, less than half of small and medium enterprises conduct online meetings, which speaks to women there facing more challenges related to having children or caring for the elderly. Remote work is also less prevalent in Spain and Portugal.

Will the recent shifts in gender gaps be permanent?

There is a strong likelihood that at least some of this narrowing in the gender gap will be enduring, reflecting long-term changes in societal norms, corporate practices and policy environments. However, if push factors such as high inflation and interest rates dominate, we might witness some backsliding when these economic pressures ease and household incomes stabilize. Our forecast is for inflation to fall back to target in most

Chart 8: Remote Meetings Have Become Commonplace



Sources: Eurostat, Moody's Analytics

major countries throughout 2024, while wage growth should remain steady given still-tight labour markets. This will allow purchasing power to recover some lost ground. At the same time, major central banks such as the Federal Reserve and the European Central Bank should start cutting interest rates during the first half of this year, bringing further relief to households. In this scenario, the necessity driving some women into the workforce is likely to diminish, potentially reversing some of the recent gains in female labour force participation.

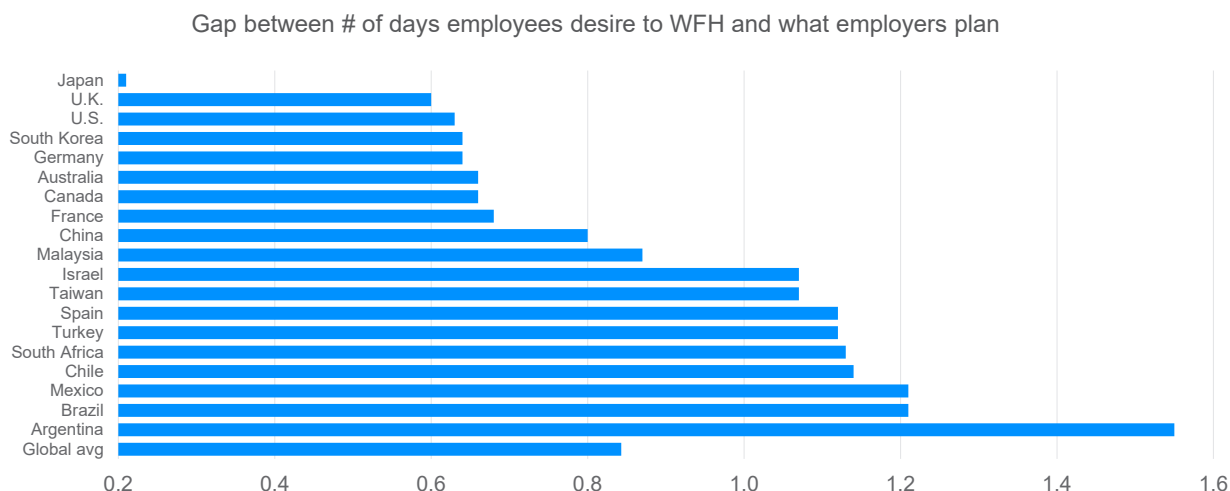
Moreover, the return-to-office mandates by some companies in the past few months could also contribute to a potential backslide in female participation rates. Without the flexibility of remote work, many women—especially those with young children—could find themselves having to exit the workforce. The Global Survey of Working Arrangements reveals an increasing divergence between employer and employee expectations regarding remote work. On average, employees worldwide express a desire to work from home two days per week, whereas employers plan for a notably lower average of 1.1 work-from-home days per week.¹ This highlights how attitudes towards flexible working arrangements might be changing, potentially to the detriment of women (see Chart 9).

And even if remote work remained an option to some women, notably those with small children, it could come with unintended disadvantages in a larger back-to-the-office context. Anecdotal evidence shows that managers unintentionally favour employees who are physically present in the office, providing them with better assignments, higher raises, and more opportunities for promotion.

A recent study by U.K. Public First has found that hybrid working models have proven to be a significant catalyst in boosting female labour force participation in the U.K. The study showed that women who primarily work from home are considerably more likely to work full time compared with those who mostly work away from home, with this trend being even more pronounced in households with dependent children. Furthermore, industry data reveal a substantial increase in the proportion of women working full time in

¹ Askoy, C. G., Barrero, J. M., Bloom, N., Davis, S. J., Dolls, M. and Zarate, P., Working from Home Around the Globe: 2023 Report. <https://wfhrsearch.com/wp-content/uploads/2023/06/GSWA-2023.pdf>

Chart 9: Employees Working Remotely More Than Employers Want



Sources: Global Survey of Working Arrangements, Moody's Analytics

professional services sectors such as banking, information and communications technology, and other professional services, from 2019 to 2023. This increase is even more significant among those with children. If the opportunities to work from home diminish, this would be a setback to recent gains in full-time female employment.

Is the rise in participation matched by a rise in job quality?

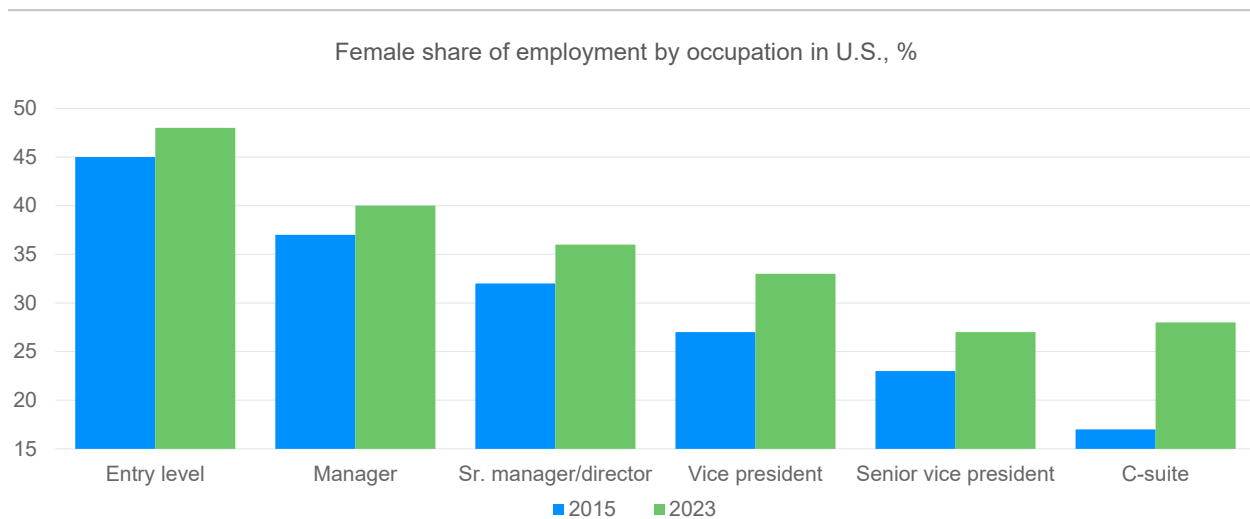
More and more women are becoming actively engaged in the labour market across the world. But what sort of jobs are they heading into? Moody's Analytics research has shown that women are consistently overqualified for their jobs and underutilised in the workforce.² This is partly responsible for the wide gender gaps in senior and middle management positions, with these gender gaps growing as you move up the seniority ladder. Has the narrowing of gender gaps in participation and changes in the way we work also helped narrow gaps in management?

The evidence is mixed but does suggest that women have not just been joining the workforce but have also been moving into more senior roles within the workforce. Survey evidence for the U.S. shows that the share of women in entry-level positions has increased by just 3 percentage points in recent years, compared with a 6-point rise in the share of women holding vice president-level positions and a whopping 11-point rise in the share of women in C-suite positions, albeit from a very low starting point (see Chart 10).

In the EU, the share of female managers had been rising steadily since 2019 but seemed to reverse course towards the end of 2022. This appears to be partly driven by demographics, with the share of female managers older than 50 continuing the upward trend in 2023. This may be linked to the observation above that the rise in female participation in the EU has been most dramatic in the 55-65 age group. It suggests that women who have achieved more senior roles in the workforce are choosing to stay attached to the labour force for longer. This has important implications for the individuals involved as well as for government fiscal positions in terms of current income tax revenue and future social benefit liabilities (see Chart 11).

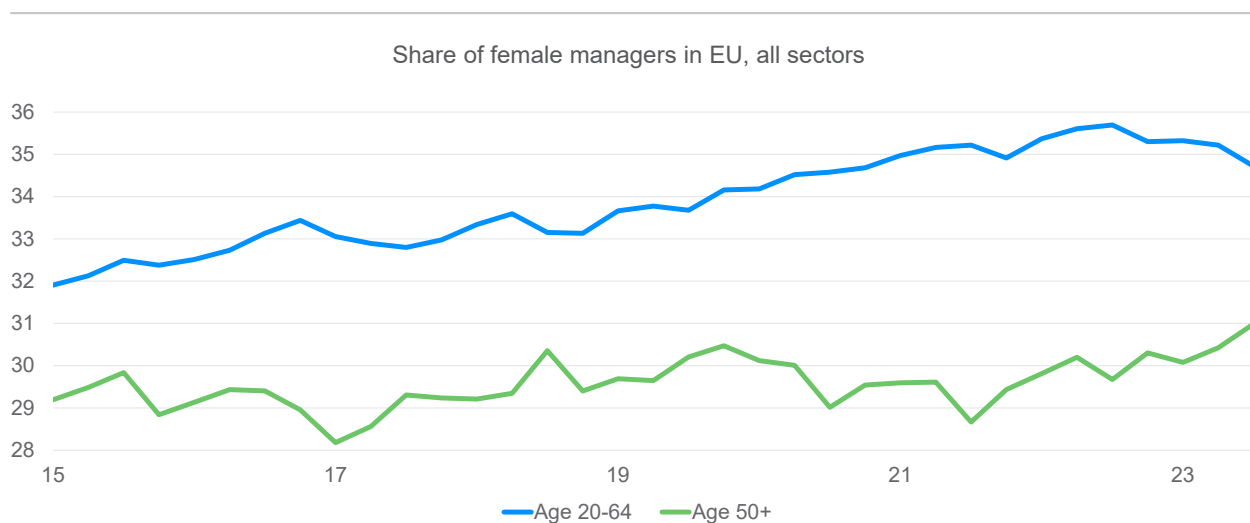
² <https://www.moodyanalytics.com/-/media/article/2023/close-the-gender-gap-to-unlock-productivity-gains.pdf>

Chart 10: Gender Gaps Narrowing at the Top in the U.S.



Sources: McKinsey & Co., Moody's Analytics

Chart 11: Demographic Differences in EU Gender Gaps in Management



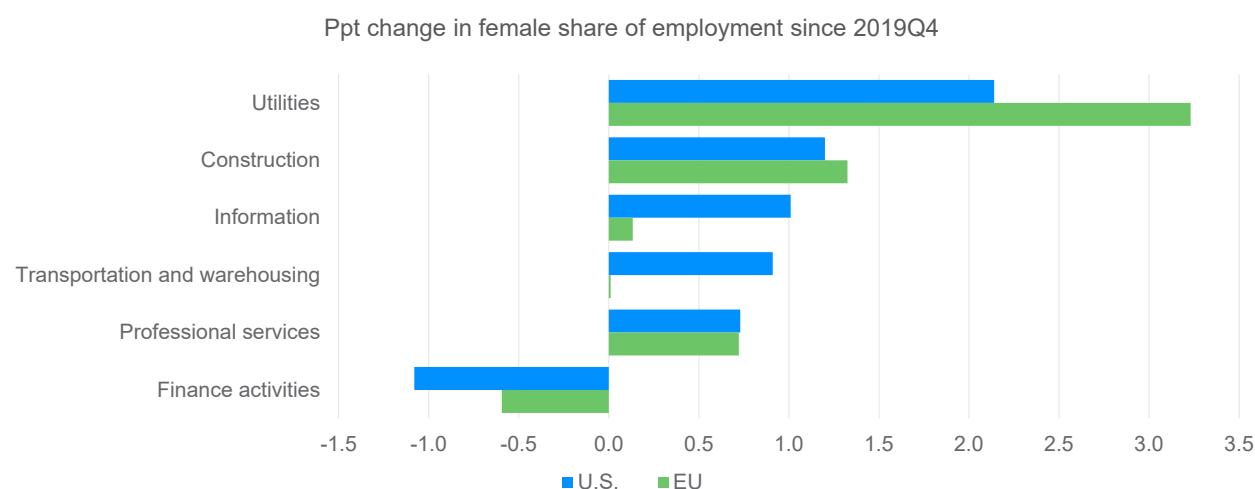
Sources: Eurostat, Moody's Analytics

Elsewhere in the world, many other countries have also seen gender gaps in management narrow since 2019. For example, in Asia, the International Labour Organization estimates that the proportion of women in senior and middle management positions has increased by more than 2 points in Vietnam, Philippines and Indonesia; in Latin America there has been a significant rise in female managers in Argentina, Colombia and Mexico; and elsewhere, gender management gaps in both Turkey and South Africa have also narrowed.

New female labour market entrants are landing in jobs in a range of sectors, narrowing gender gaps in industries that have traditionally been heavily male-dominated, such as utilities and construction in particular. Women now make up around 27% of utilities employees in the U.S. In the past few years, utilities employment has surged

overall and is now at levels not seen for around 20 years—and women's employment in the industry has been growing even faster. A similar phenomenon is evident in the EU, where employment in utilities has increased by more than 10% since 2019 compared with an overall rise in employment of closer to 2% (see Chart 12).

Chart 12: Gains in Employment Share Have Varied Across Industries



Sources: BLS, Eurostat, Moody's Analytics

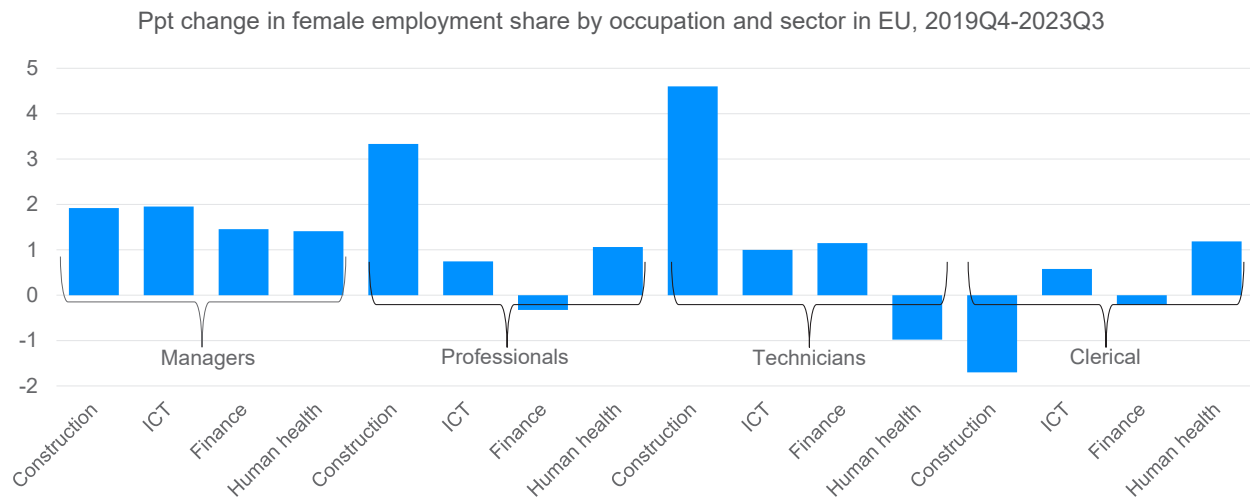
The financial sector has seen a drop-off in the share of female employment. This sector is actually already dominated by women, who account for more than 50% of finance employment in the U.S. and the EU. But critically, women remain underrepresented in more senior positions, accounting for just over 35% of financial sector managers in the EU. While the female share of total employment in finance has declined since 2019, more women have moved into senior roles, with a small narrowing of the gender gap in management during the same period. Gender management gaps have also narrowed in construction, ICT, and human health industries (see Chart 13).

Evidence from the U.K. also points towards an improvement in job quality for women in finance, with a significant increase in the share of women in the financial sector working full time from 2019 to 2023. Surveys suggest that this is linked to greater flexibility at the workplace and the shift to hybrid work (see Chart 14).

Everyone benefits from a decline in gender inequality

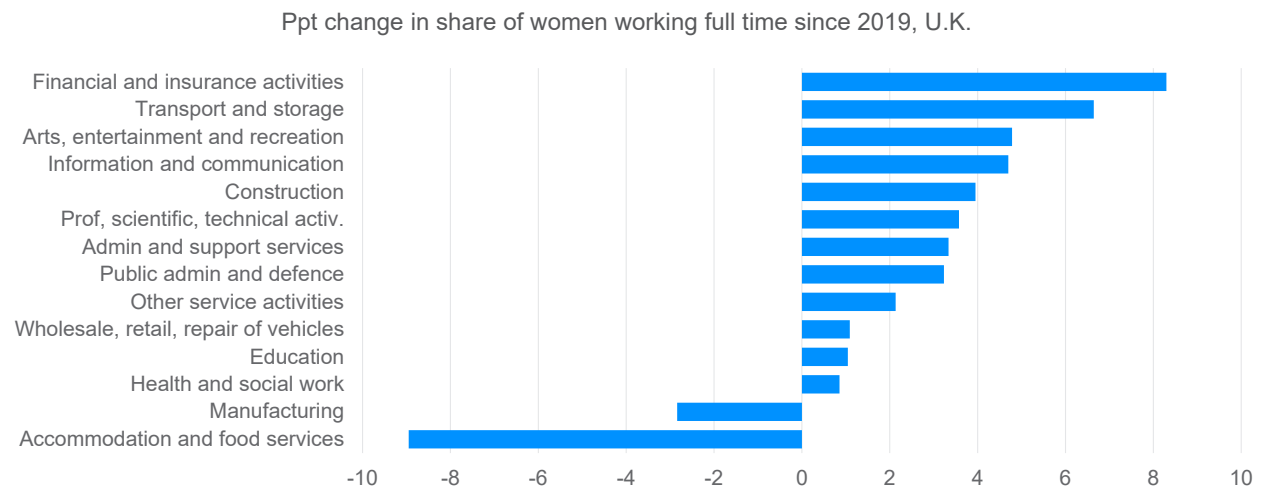
Narrowing gender gaps in labour force participation mean there are more people active in the workforce than there would have been if gender gaps remained unchanged. Simply put, more people actively working means that the global economy can produce more. To estimate the magnitude of that impact on global income, we use the Moody's Analytics global macroeconomic model to develop a counterfactual scenario where female labour force participation rose at the same rate as male labour force participation from 2019 to 2023, leaving the gender gap in participation unchanged. The shock is calibrated for 39 of the world's largest economies, all of which have seen gender gaps in labour force participation narrow since 2019.

Chart 13: Management Gender Gaps Narrowing in Key EU Sectors



Sources: Eurostat, Moody's Analytics

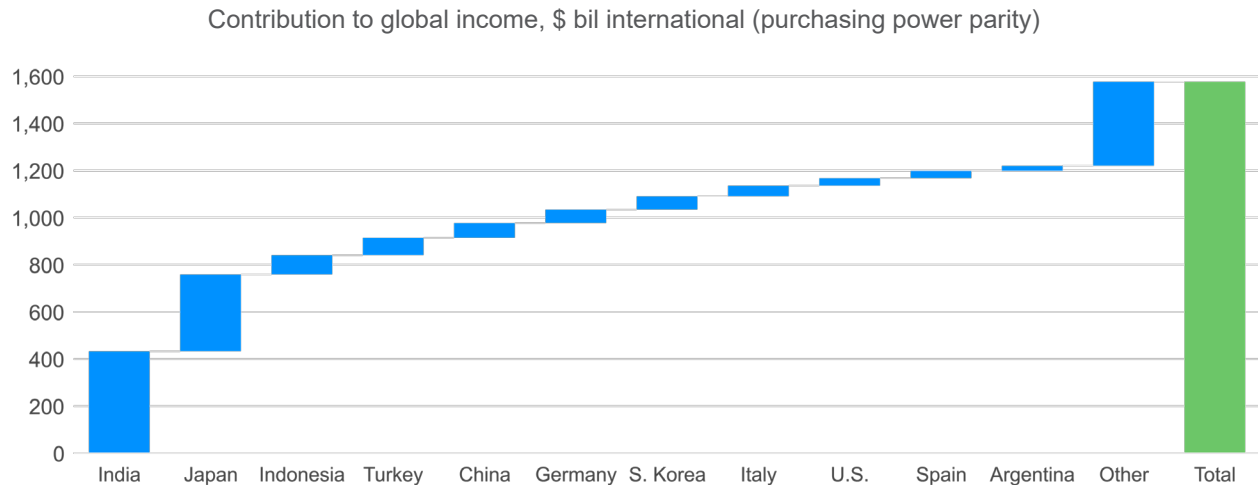
Chart 14: More Women in Finance Are Working Full Time



Sources: Public First, Commission on Hybrid and Remote Work, Moody's Analytics

Our analysis indicates that narrowing gender gaps in labour force participation since 2019 have added around \$1.5 trillion to global income. Of this, nearly half can be attributed to India and Japan, two large economies where gender gaps remain wide. The income generated from new entrants into the labour market benefits not only the individuals who are compensated for their work, but also the firms that are able to increase production, the governments that receive more in income tax revenue and may also pay less in income support, and the world economy overall through the second-round effects on demand (see Chart 15).

Chart 15: Narrowing Gender Gaps Have Added \$1.5 Trillion to Global Income



Source: Moody's Analytics

Conclusion

There is still enormous work that must be done to achieve gender parity in the labour market. At this stage, reaching the U.N. Sustainable Development Goal for gender equality by 2030 is clearly beyond reach. Nonetheless, small steps have been achieved that are also helping deliver higher economic prosperity across the globe. A silver lining of the havoc wreaked by the COVID-19 pandemic may be a permanent shift in attitudes towards working that paves the way for more women to actively engage with the labour market. However, job quality is at least as important as job quantity. Accelerating the pace in which gender gaps in full-time, senior-level positions are narrowing will unlock economic potential at individual and macroeconomic levels.

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