

LABOR ON THE MEND:

A DECLINE IN LABOR FORCE PARTICIPATION

The labor force participation rate measures the share of the population, 16 and older, working or looking for work. The participation rate fluctuates with the economy—increases with economic growth, declines with recessions. But the participation rate took a bigger drop during the last recession than in any other four-year period in the last 60 years, said Kansas City Fed Senior Economist Willem Van Zandweghe.

In his new research, Van Zandweghe says the sharp decline in the labor force participation rate since the onset of the recent recession is due to long-term demographic trends and to the cyclical downturn in the labor market.



In 2007, there were 146.1 million people working in the United States. By 2011, 139.9 million people were employed. The overall labor force participation rate enjoyed a steady increase from 59 percent in 1948 to 67 percent in 2000, but it has steadily declined since the 2001 recession.



But the labor force increased by only 493,000 in this period, because the participation rate dropped from 66.0 percent to 64.1 percent.



BETWEEN 2007 AND 2011
the civilian U.S. population 16 years and older increased by 7.75 million—from 231.87 million to 239.62 million.

66%

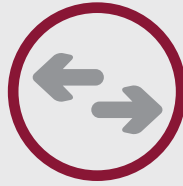
If the participation rate had remained at 66 percent in 2011, the increase in population would have raised the labor force by 5.12 million between 2007 and 2011. So there were 4.63 million fewer people in the labor force by 2011 than there would have been if participation had stayed at 66 percent.

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From 2007 to 2011, the participation rate dropped 1.2 percentage points for women. This decrease can be attributed to the recession.

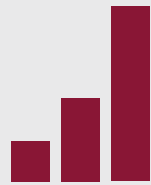
Overall, the labor force participation rate for women had increased in the past 60 years—from 33 percent in 1948 to 60 percent 1999.



Historically, the labor force participation rate for men and women has followed different patterns.

The participation rate fell 2.8 percentage points for men from 2007 to 2011. Only two-fifths of this decline can be attributed to the recession. The remainder is part of an ongoing 60-year trend. Eighty-seven percent of eligible men participated in the labor force in 1948. Since then, the participation rate for men declined steadily to about 70 percent in 2011.

THE RECESSION



The recession made it difficult to find jobs, raising the unemployment rate and causing many job seekers to leave the labor force. The unemployment rate rose from 4.6 percent in 2007 to 9.6 percent in 2011.



AN AGING POPULATION

The percentage of population older than 54 years of age rose from 29.7 percent in 2007 to 32 percent in 2011. As older workers have lower labor participation rates than prime-age workers, 24-54 years, population aging is pulling down the economy's labor force participation rate.



RESULT

The cyclical downturn caused by the recession and the labor force trends, such as population aging, each account for about half of the 1.9 percentage points drop in the labor force participation rate. Each factor caused workers to move in and out of the labor force or drop out completely.

CONCLUSION:

How much of the decline in the labor force participation rate will be reversed when the pace of the economy quickens and people venture back into the labor force is what Van Zandweghe tries to answer.

The influence of long-term trends, however, imply that potential labor supply and output could be adversely affected by the recent decline in labor force participation even as the economy recovers. Cyclical factors, such as a stronger economy means more available jobs and people returning to the labor force, imply that the unemployment rate will decrease gradually to its long-term rate. Whether that rate reaches prerecession numbers depends on the strength of the recovery—will the recovery produce enough viable jobs to entice workers who left the labor force to return?

“Workers who suffer long periods of unemployment may remain in the labor force but become chronically unemployed, raising the structural unemployment rate,” Van Zandweghe said. “However, others may become permanently less attached to the labor force or even permanently exit the labor force.”

This permanent exit could come in the form of workers receiving long-term disability benefits or aging workers—15 percent of unemployed workers in 2011 were 55 and older—could decide to retire.

“Still others may find it difficult after a long period of unemployment to find stable employment and may spend more time out of the labor force during the remainder of their careers,” Van Zandweghe said.

Based on Willem Van Zandweghe's research: “Interpreting the Recent Decline in Labor Force Participation.”