Session 2: Trends in Labor Force Participation

Nicolas Petrosky-Nadeau¹

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¹These views are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of San Francisco or the Federal Reserve System.
Session 2: Trends in Labor Force Participation

Three Firestarter Topics:

1 - Transitory and persistent impacts of the pandemic
2 - Closing participation gaps
3 - Immigration and labor force growth

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1 - A Transitory and A (Potentially) Lasting Impact of the Pandemic

Initial concerns over pandemic’s impact on women’s participation erased by 2023

Shortfall in participants aged 55+ persistent and concentrated among the non-college educated

Despite gains during current expansion a large gap remains relative to peer countries.


Source: FRED (lrc25mausm156s, lrc25feusm156s, lrc25macam156s, lrc25femam156s).
Note: 3 month moving average, Seasonally Adjusted.
Foreign born workers account for nearly 2/3 of LF growth since 2021.

Note: Values are seasonally adjusted and indexed to a value of 100 in February 2020. Shaded areas denote NBER recession dates. Source: Bureau of Labor Statistics via Haver Analytics, and FRBSF calculations.
ADDITIONAL SLIDES
Differential aging across demographic groups can distort trends.
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3 - Domestic and Foreign Born Contributions to Labor Force Growth

Growth in LF Since May 2021

Source: FRED (lnu01000000, lnu01073395, lnu01073413).
Note: Thousands of persons, Seasonally Adjusted.
3 - Missing Domestic Born Workers?

Note: Native-born population only. Base date: 2023-12-01. Dotted trendlines depict 2000-2019 linear trend.
Trends in Labor Force Participation

Ayşegül Şahin
UT Austin

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Based on joint works with Bart Hobijn
Questions

- What happened pre-, during, and post-pandemic? Have long-term trends changed, or were they just disrupted a bit by COVID?

- How much of the decline in labor force participation was among older (70+) workers and part-time workers?

- Do we expect LFP of older workers to begin rising again as it had been pre-pandemic? Whither prime-age male LFP?

- What role does availability of childcare play in LFP?

- What about hours—what do we make of differences among surveys?
Labor Force Participation Trend Predates the COVID-19 Pandemic

Labor Force Participation Rate, Actual and Trend Estimates
Monthly observations; seasonally adjusted

Note: Vintage of forecast is indicated by dot. Actual is seasonally adjusted monthly observations. Trend estimates in bottom panel by source:
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Emphasis on Labor Force Entry/Exit Dynamics During the Pandemic

Labor Force Entry and Exit Rates

monthly; seasonally adjusted; percent of labor force

Source: Bureau of Labor Statistics and authors' calculations

Hobijn & Şahin (2022)
**Key Intuition:** When someone moves from U to E, they are more likely to remain in the labor force going forward. This simple mechanism (the participation cycle) is the source of procyclicality of participation, not labor force entry and exit.

Hobijn & Şahin (2021)
Participation Cycle Lagged the Unemployment Cycle As Always

Trough to trough LFPR changes decomposed
Monthly observations; seasonally adjusted; cumulative change since unemployment trough; Total

Source: BLS, CPS, and authors’ calculations
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Cyclical Pressures on Participation Similar to 2019

Trough to trough LFPR changes decomposed
Monthly observations; seasonally adjusted; cumulative change since unemployment trough; Total

Source: BLS, CPS, and authors’ calculations
Recovery of participation rates for all groups is not because marginalized workers are drawn back into the labor force, but instead because those in labor force become more attached due to better labor market opportunities and more employment stability.

Contrasts with common narrative as in Perry (1971), Okun (1973)
Demographic Trends
Baby Boom Generation: Born Between 1946 and 1964

Source: Rarehistoricalphotos.com
Tracking the Baby Boom Cohort: 2002

U.S. Population by Age, 2002

Replicated from the NY Times article: https://www.nytimes.com/2022/12/27/business/economy/labor-shortage-retirees-boomers.html
U.S. Population by Age, 2012

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Participation Trends by Age: 2002-2022

- Total, 16 years and older
- 16 to 24
- 16 to 19
- 20 to 24
- 25 to 54
- 25 to 34
- 35 to 44
- 45 to 54
- 55 and older
- 55 to 64
- 65 to 74
- 75 and older

Participation rate, 2002
Participation rate, 2012
Participation rate, 2022

Men
Women
Pushing Against the Trend
How Do We Create Attachment?

Strong labor market conditions:

- Stable employment and abundant job opportunities make it easier to keep workers attached
  - Labor market remains strong
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  - Desired hours gaps low
  - Aggregate hours gap suggests labor market conditions are even tighter
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→ not much room left
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    \[ E - to - N \] for prime-age women was 10x that of men in 1967-73

Referred to as Participation Instability by Marston (1976)

- participation instability also contributed to gender unemployment gap

Albanesi & Şahin (2018)

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→ how much room do we really have?
References


Zandwedge, Willem van. 2012. Interpreting the recent decline in labor force participation. Economic review, 97(Q I), 5–34.
Additional Plots
Participation Trends by Age for Women: 2002-2022
Labor Force Participation Rate vs. Desired Hours

- **Mean Potential Work Hours**
- **BLS Labor Force Participation Rate (right)**

The graph shows the fluctuations in the mean potential work hours and the BLS labor force participation rate from 1994 to 2023. The data indicates a downward trend in the participation rate and a steady decrease in mean potential work hours, except for a slight increase in recent years.