



Labor Force Participation Pre- and Post-COVID

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Let's start with some definitions

- **Labor force**: The labor force includes all people age 16 and older who are classified as either employed and unemployed, as defined below. Conceptually, the labor force level is the number of people who are either working or actively looking for work.
- **Employed**: Those age 16 and older who meet any of the following criteria:
 1. Worked at least 1 hour as a paid employee
 2. Worked at least 1 hour in their own business, profession, trade, or farm
 3. Were temporarily absent from their job, business or farm, whether or not they were paid for the time off
 4. Worked without pay for a minimum of 15 hours in a business or farm owned by a member of their family
- **Unemployed**: Those age 16 and older who are not employed and meet all of the following criteria:
 1. They were not employed during the survey reference week.
 2. They were available for work during the survey reference week, except for temporary illness
 3. They made at least one specific, active effort to find a job during the 4-week period ending with the survey reference week OR they were temporarily laid off and are expecting to be recalled
- **Civilian noninstitutional population**: Individuals aged 16 or older who are not in the military, confined to an institutional facility such as a prison or a nursing home

Let's start with some definitions

Unemployment rate:

$$\frac{\text{Number of Unemployed}}{\text{Civilian Labor Force}}$$

Labor force participation rate:

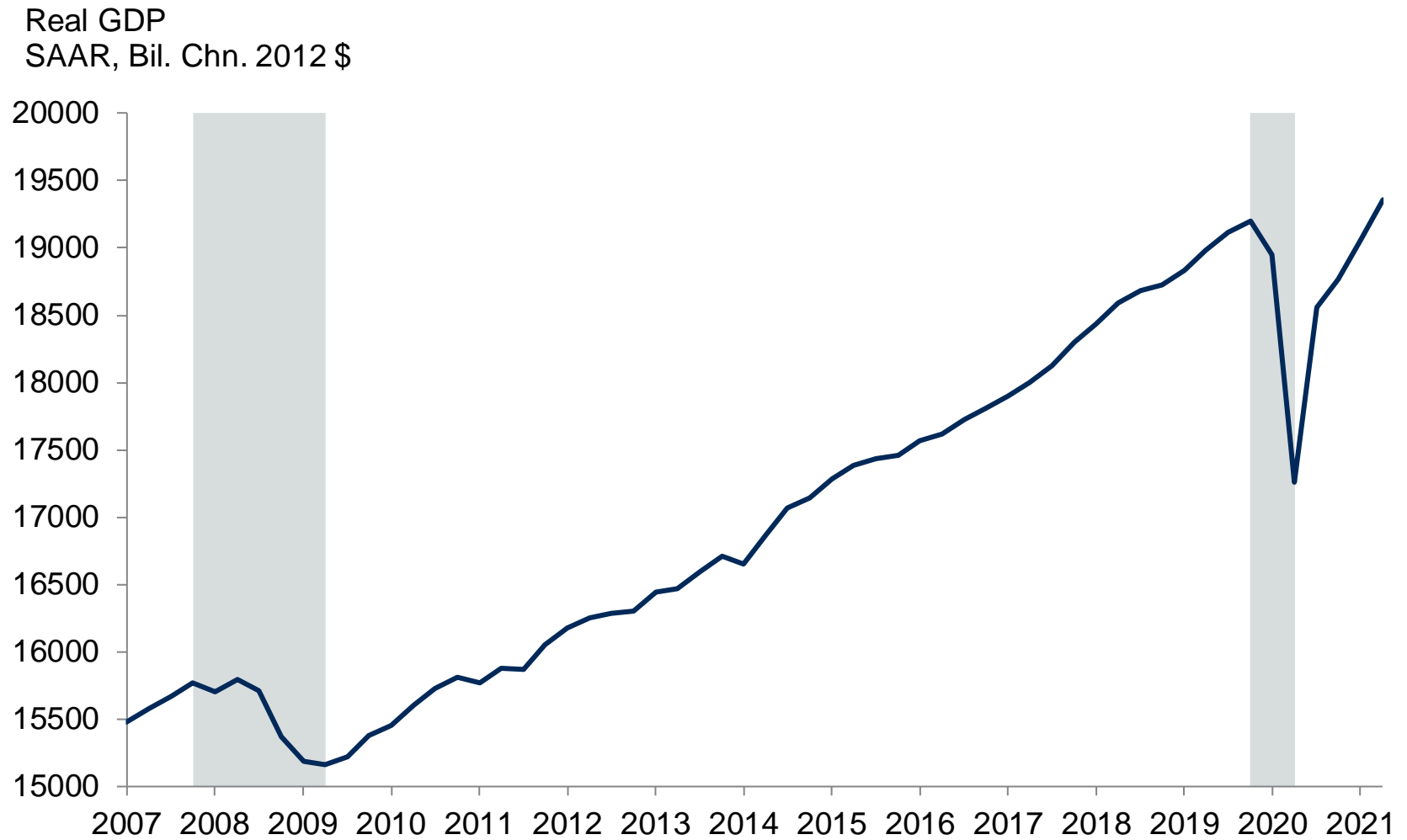
$$\frac{\text{Civilian Labor Force}}{\text{Noninstitutional Population Age 16 and Older}}.$$

Source: Bureau of Labor Statistics

Where are we now?

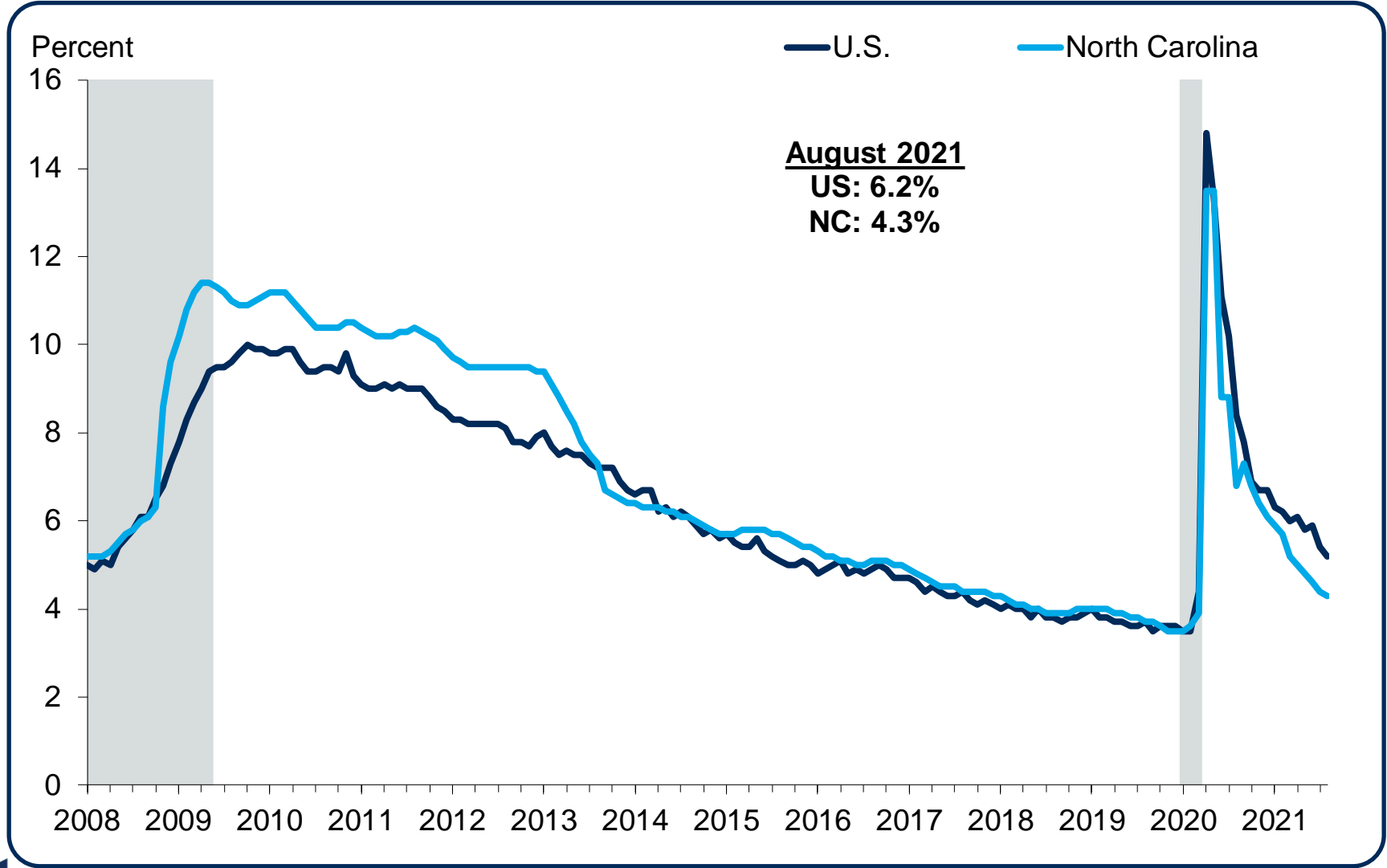
- After an extraordinarily volatile 2020, GDP growth looks strong thus far in 2021. Q1 Real GDP grew at an annualized rate of 6.4% and the Q2 estimate stands at 6.6%. GDP now exceeds pre-pandemic levels.
- While GDP and employment are both on a path towards recovery, GDP growth is outpacing employment growth.
- As of August, there were still 5.3 million fewer jobs than we had in February 2020, a 3.4% decline.
- Many businesses are reporting difficulties in finding labor, even though the unemployment rate remains elevated.
- Labor force participation rates remain below pre-COVID norms and the recovery is uncertain.
- Significant disparities exist by industry, wage level and demographic groups.
- Fiscal stimulus has led to strong increases in consumer spending and saving; a significant amount of funds have also provided relief to state and local governments.

The level of economic activity has now recovered to pre-pandemic levels



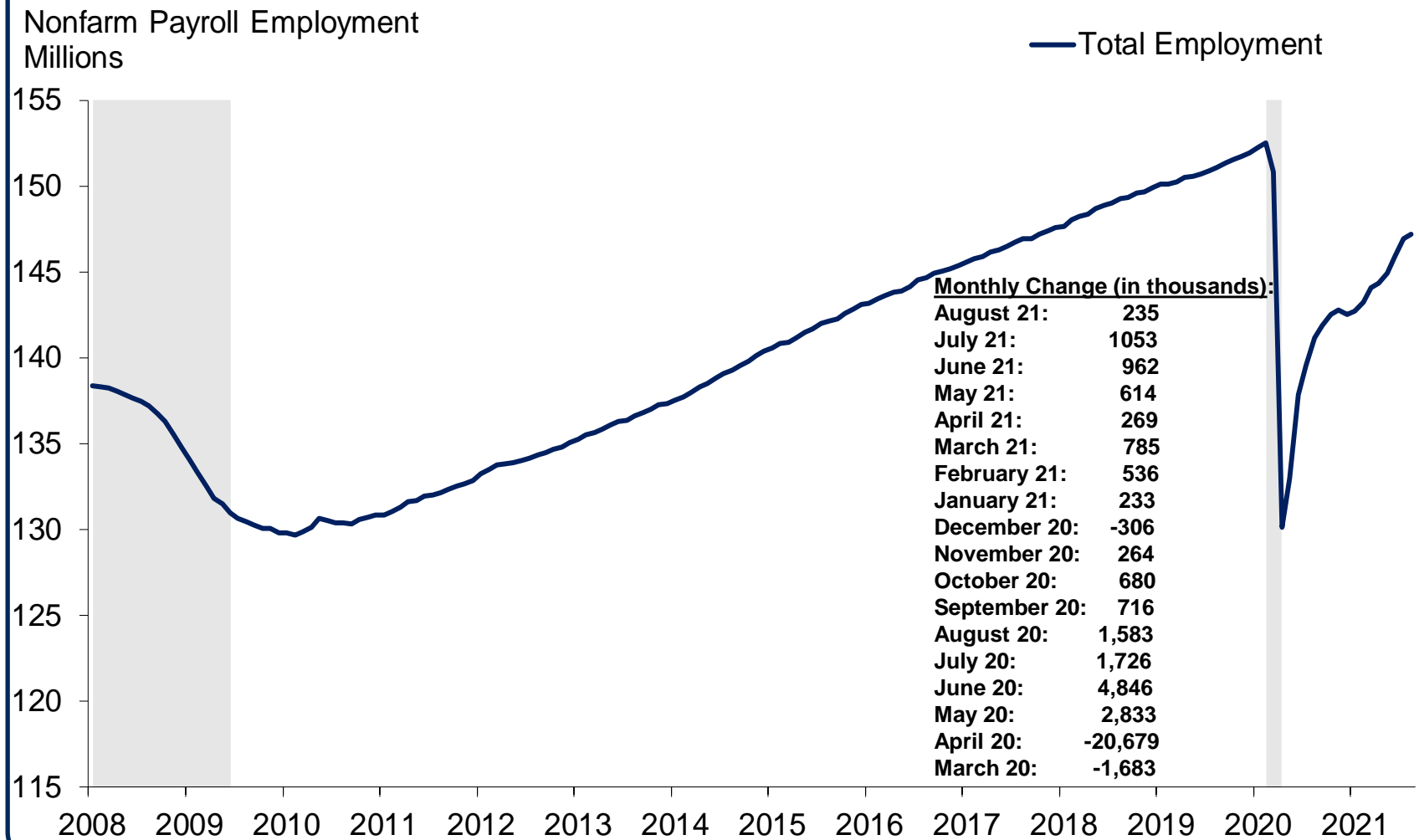
Source: Bureau of Economic Analysis, Haver Analytics

Unemployment rates are coming down...



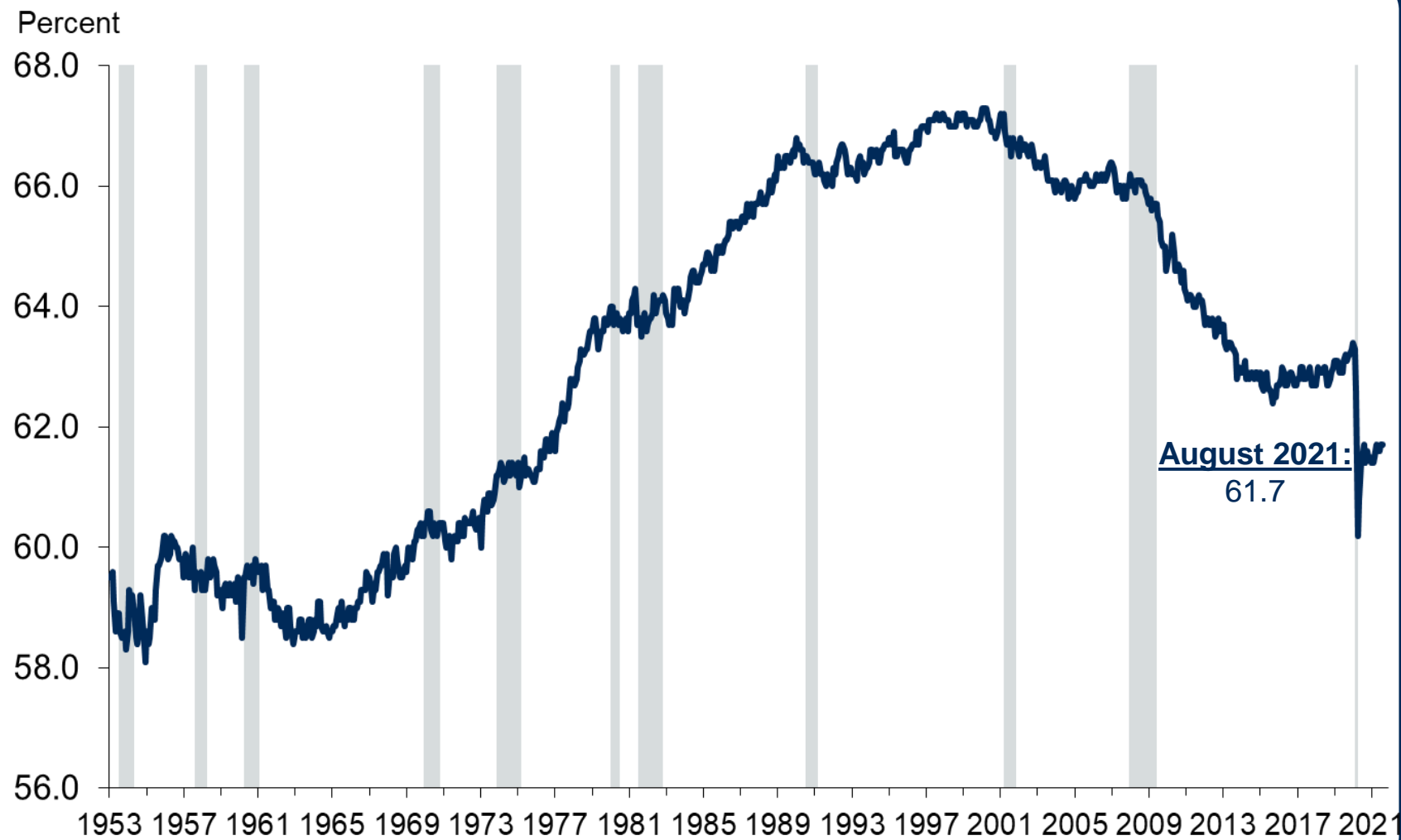
Source: Bureau of Labor Statistics/Haver Analytics

...by employment has been slower to recover than GDP



Source: Bureau of Labor Statistics/Haver Analytics

Many have not returned to the labor force and the recovery path of labor force participation remains uncertain



Source: Bureau of Labor Statistics

What led to LFP rate patterns pre-COVID?

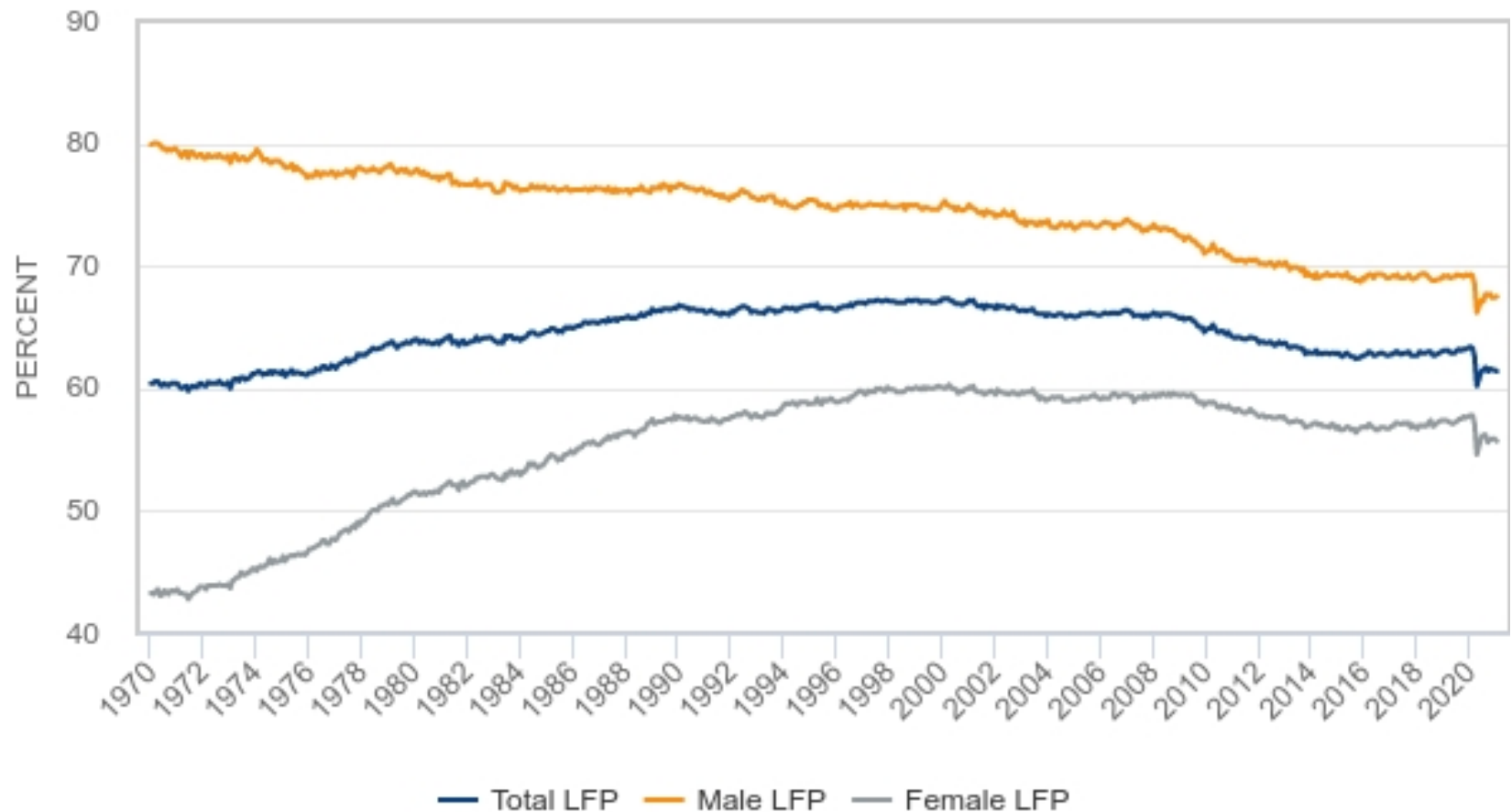
1970 – 2000 (mostly an increase in LFP):

- The influx of women into the labor force (female LFP grew by 17 percentage points)
- The baby boom generation entering working age
- People working longer as life expectancy improved

2000 – 2019 (mostly a decline in LFP):

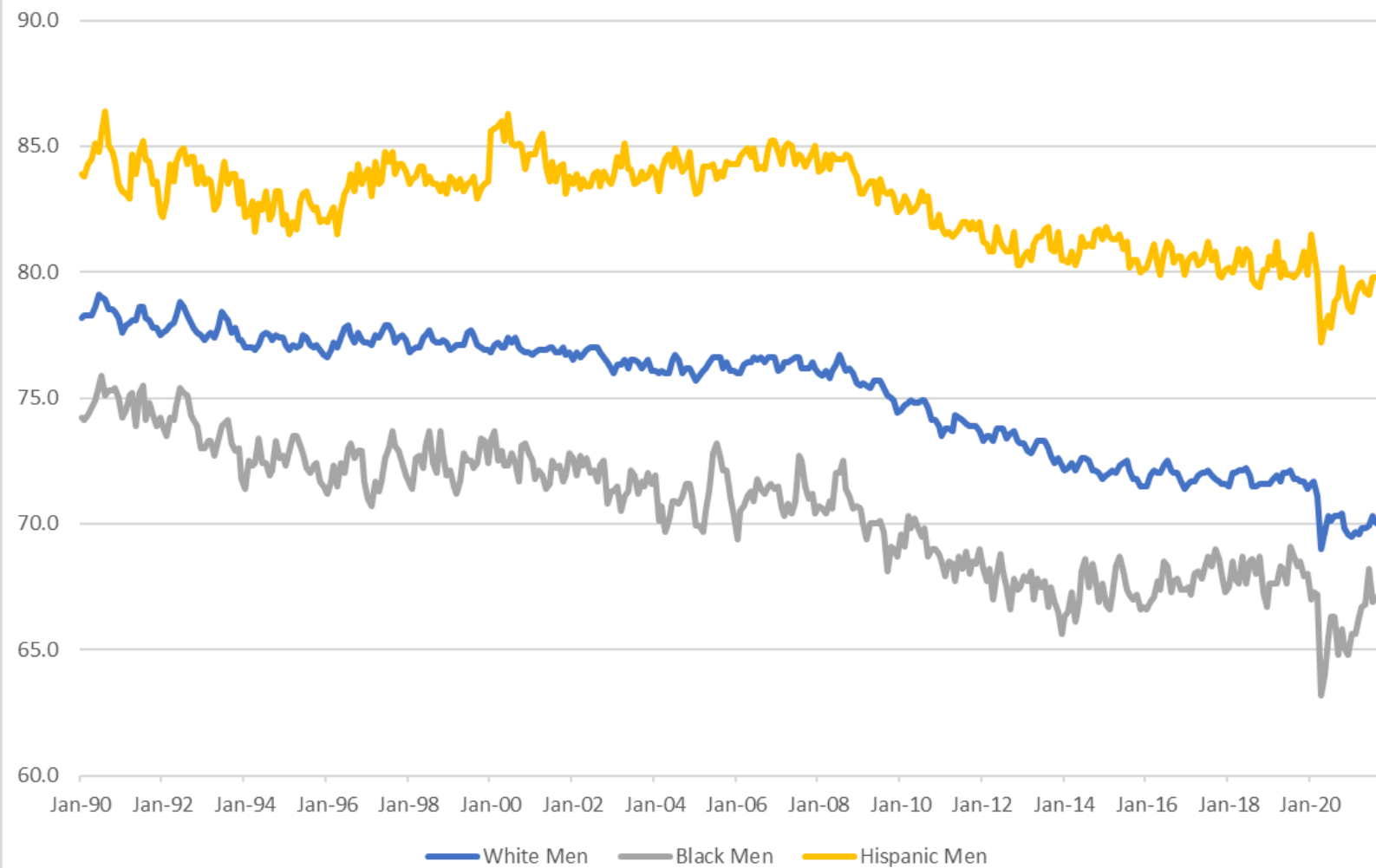
- A decline in both male and female LFP from 2000 peaks, with a larger decline in male LFP (female LFP fell by 2.3 percentage points while male LFP fell by 5.8 percentage points)
- Declines in prime-age male LFP
- The baby boom generation beginning to retire
- An increase in disability rates

Labor force participation by gender (1970 – present)



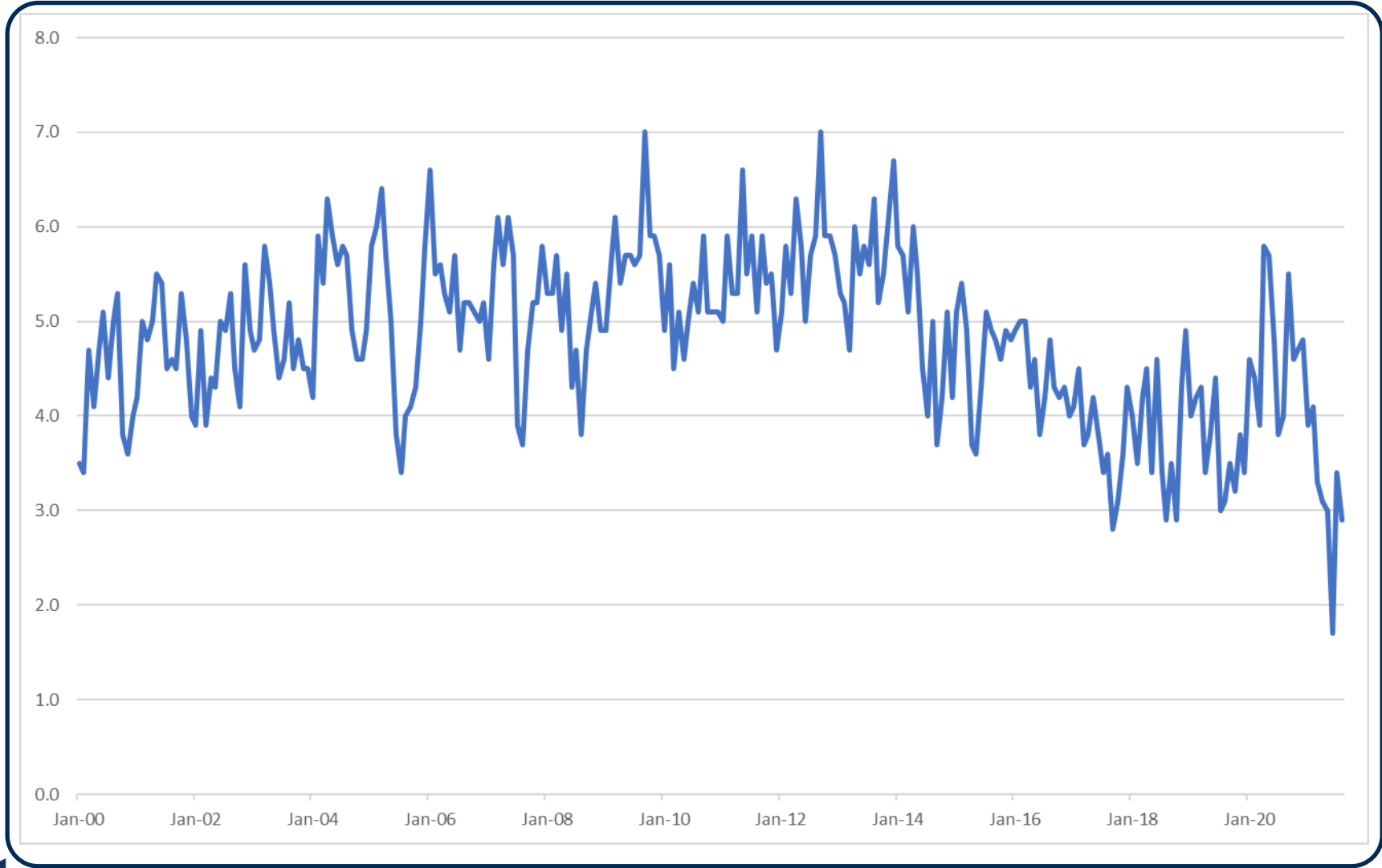
Source: Bureau of Labor Statistics

Male labor force participation by race



Source: Bureau of Labor Statistics

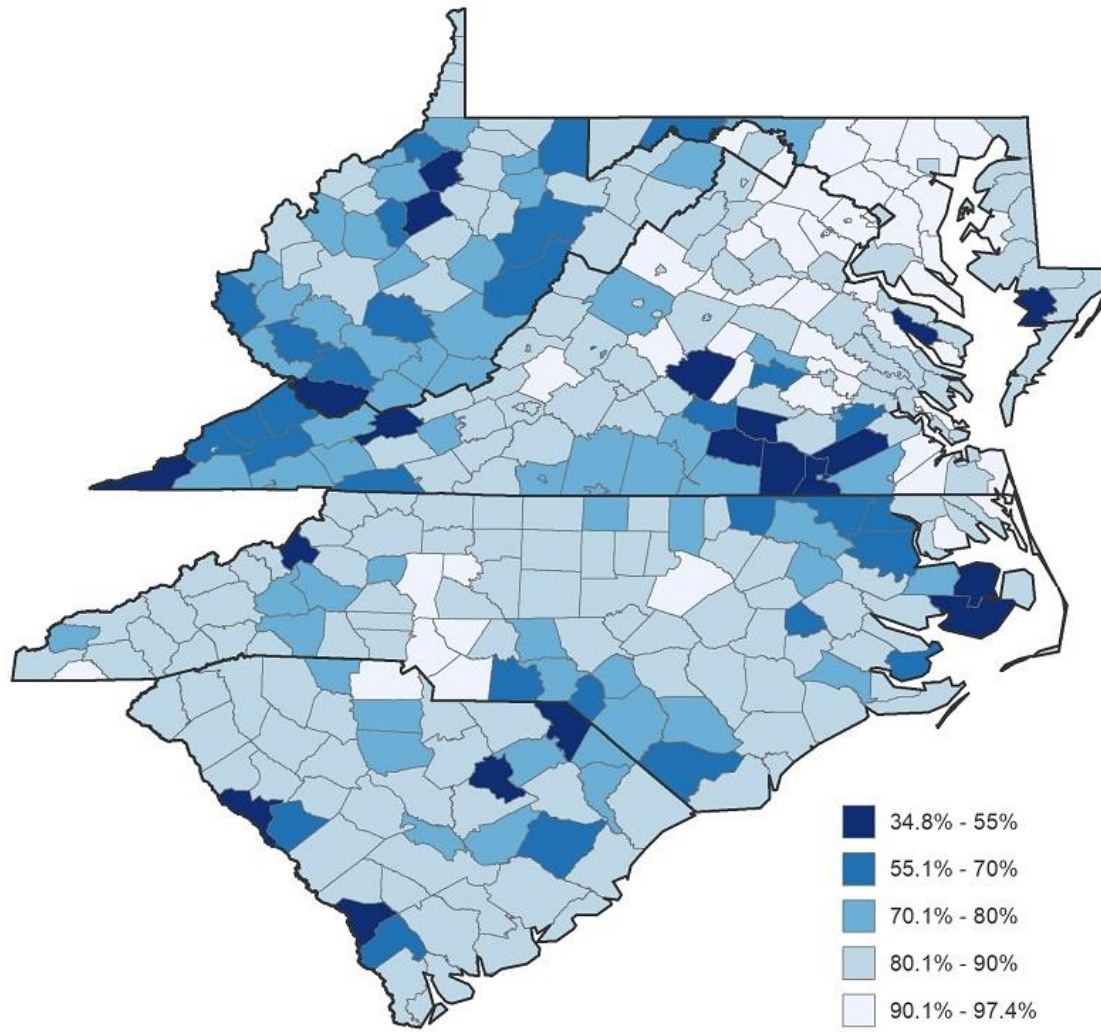
Gap between white and black male LFP



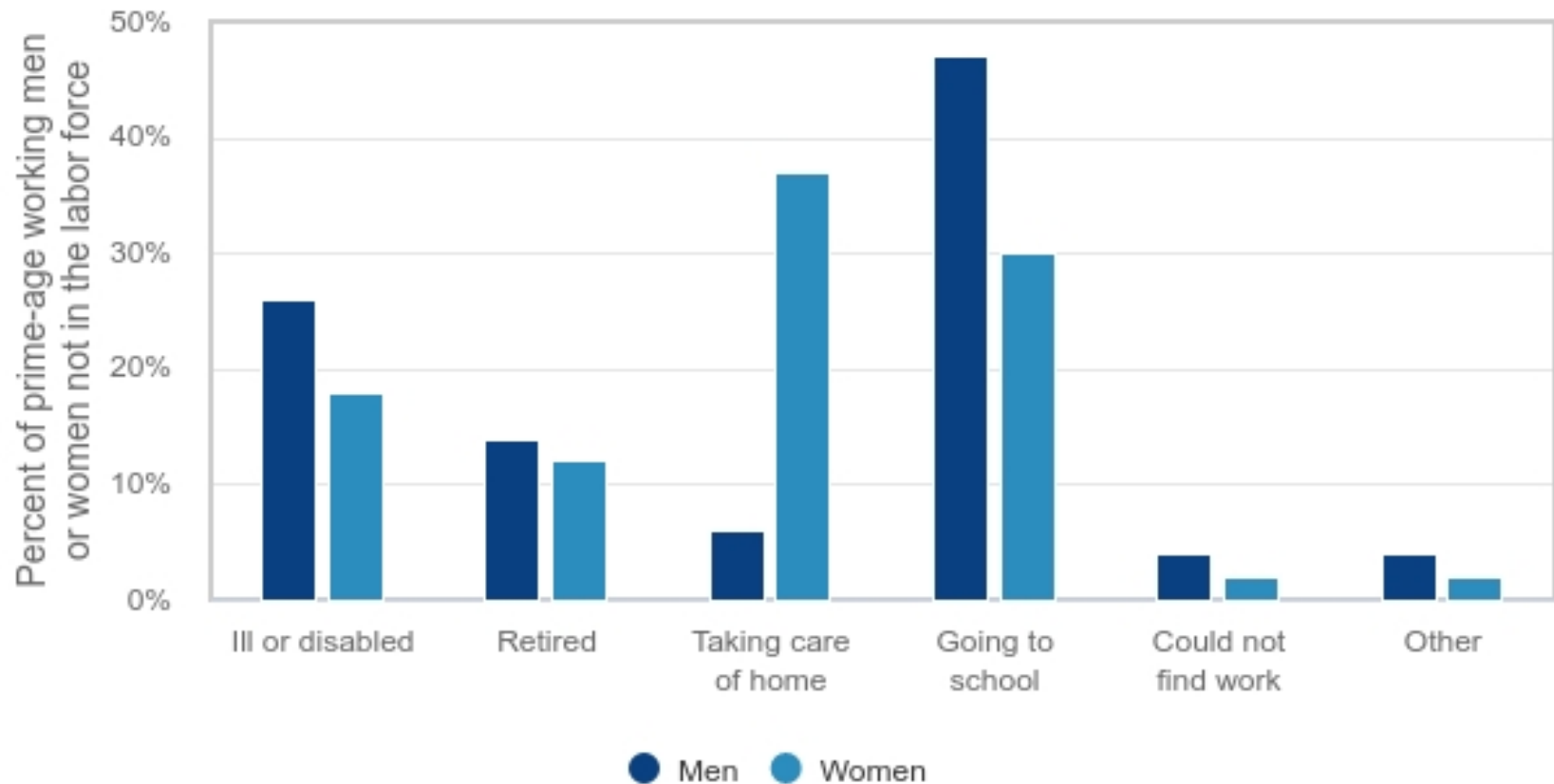
Source: Bureau of Labor Statistics

Labor Force Participation Rate

Prime Age Men, 2019



Why wouldn't prime-age people be working?



Source: Annual Social and Economic Supplement of the Current Population Survey

What does the literature say about male LFP?

- A Brookings study highlighted that the reduction in manufacturing employment (which fell 30 percent in 35 years) has caused structural unemployment that has impacted male high school graduates most significantly.
 - Other authors, including Acemoglu and Autor, have found that there is a skills mismatch due to increased technology and automation.
- There has been a significant increase in the amount of time spent on “recreational computer use”.
 - Nonworking males spend over 3.6 more hours per day on these activities than men with full-time employment. Nonworking males only spend 49 minutes more than their full-time counterparts on “household activities” and even less time on “caring for household members.”
 - According to a new study, the percentage of men working zero hours in the 21-30 age group more than doubled between 2000 and 2016. They estimate that nearly 75% of the decline is due to technological improvements in video games and computer-based leisure.

What does the literature say about male LFP?

- Incarceration is another issue.
 - A study by Mueller-Smith shows that each additional year of incarceration reduces post-release employment by 3.6 percentage points.
 - A recent Richmond Fed Economic Brief found that males without a high school diploma who are incarcerated for the first time will face, on average, a 50% loss of lifetime income
- Delayed family formation and expanded adolescence is also playing an important role.
 - Median age of first marriage for men increased from 23.2 years in 1970 to 30.5 years in 2020.
 - A new study from Ariel Binder finds that improvements in female employment opportunities have lowered the benefit of marriage for women, especially to noncollege-educated men. She finds that the reduction in marriage rates can explain roughly one-quarter of the decline in LFP rates for noncollege educated men.

What has happened to LFP since COVID began?

2020 – present (the COVID world)

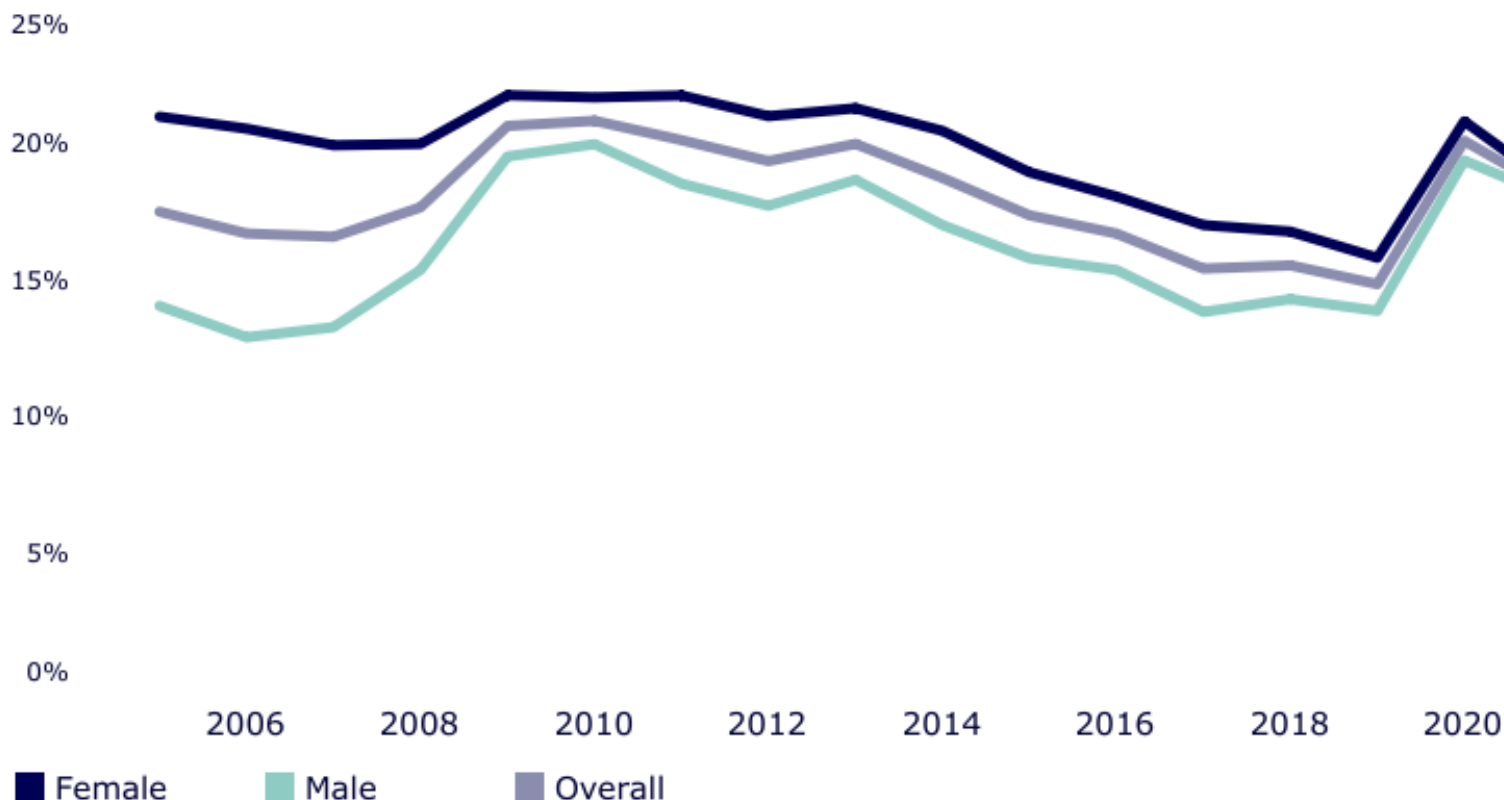
- All demographic groups saw significant declines in 2020; some have recovered more than others

Why?

- Some trends have simply been exacerbated
- Accelerated retirements
- Enhanced government support
- Families have made different work/life decisions
- More young people moved home with their parents
- The pandemic isn't over yet

The gender gap in NEET rates narrowed in the past decade.

Percentage of 20- to 24-year-olds Neither Employed nor in School By Gender, 2005 — First Quarter of 2021



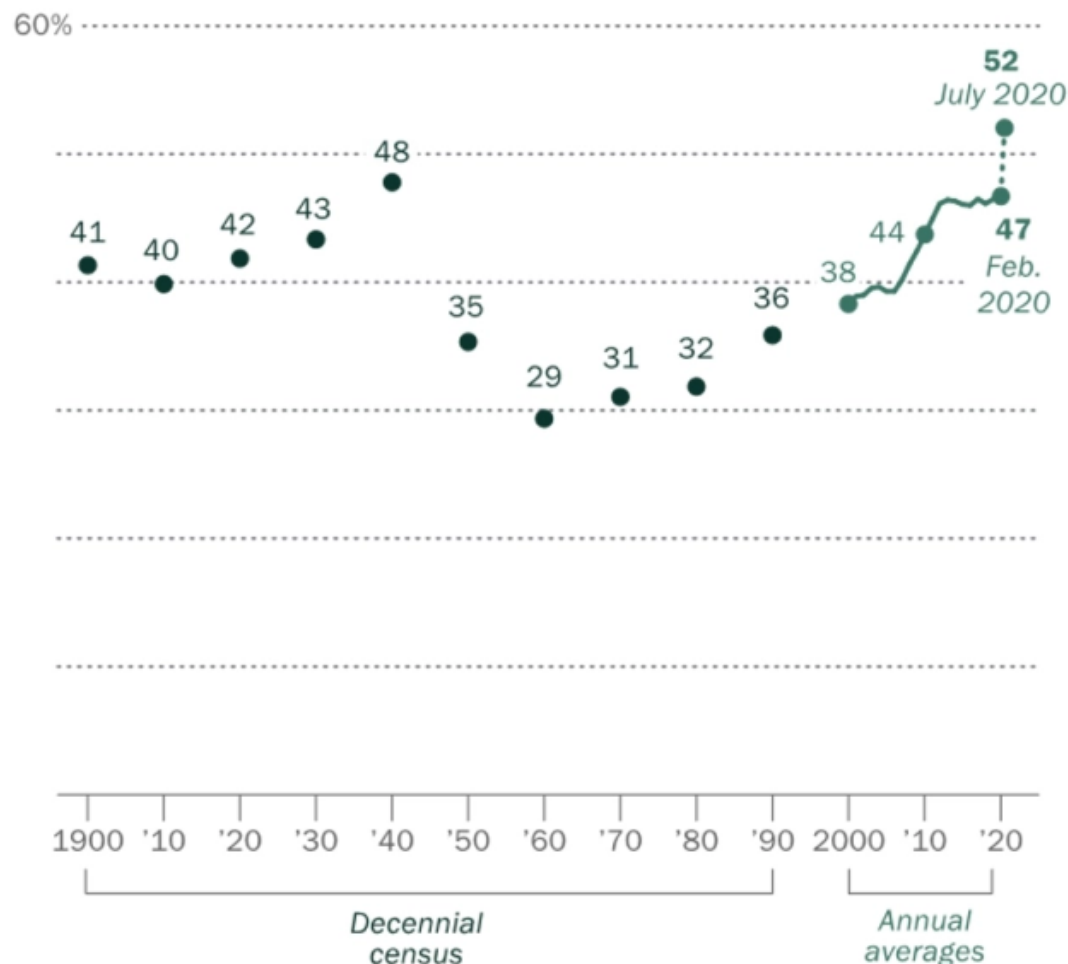
<https://cepr.net/>

Source: Authors' analysis of the monthly Current Population Survey (accessed through IPUMS <https://cps.ipums.org/cps/>)



Share of young adults living with parents rises to levels not seen since the Great Depression era

% of 18- to 29-year-olds in U.S. living with a parent



Note: "Living with a parent" refers to those who are residing with at least one parent in the household. 1900-1990 shares based on household population.

Source: Pew Research Center analysis of decennial census 1900-1990; Current Population Survey annual averages 2000-2019; 2020 Current Population Survey monthly files (IPUMS).

Results from the U.S. Chamber of Commerce survey from May 2021

- Four in 10 Americans who lost their jobs during the pandemic have altered their livelihoods: About a fifth now work part-time, one in 10 have become self-employed, and another one in 10 have retired.
- 49% of Americans who became unemployed during the pandemic say they are not actively or not very actively looking for work; less than a third (32%) report that they are strongly active in their job search.
- 61% said they were in no hurry to return to work. 30% said they did not expect to return to work this year, with nearly half of those (13% of the total) saying they never plan to return to work.
 - Extrapolated to 9.3 million unemployed Americans in May, that's an estimated 2.8 million people who will remain on the sidelines this year, 1.2 million of whom never expect to return to work.
- 13% who became unemployed during the pandemic and remained unemployed had turned down at least one job offer in the past year.

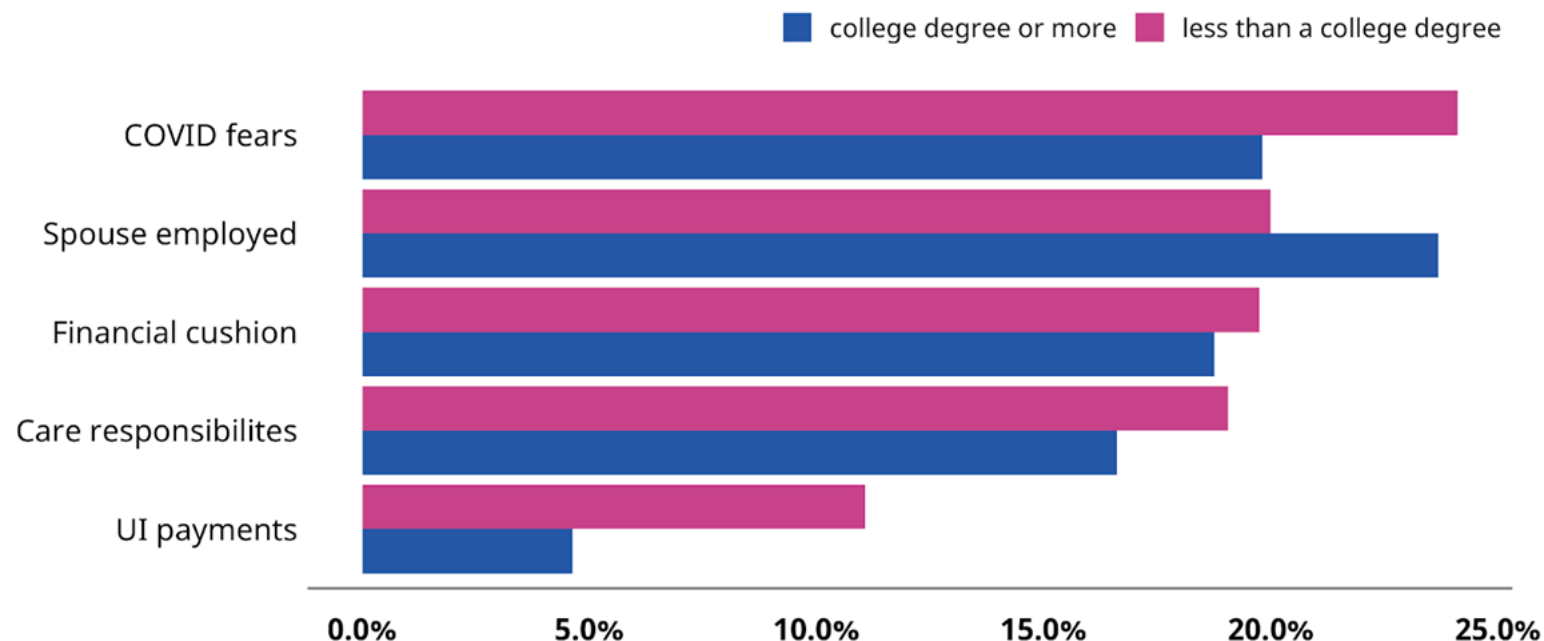
Results from the U.S. Chamber of Commerce survey from May 2021

- **16% said the amount of money they were receiving from unemployment benefits and government programs makes it “not worth looking” for work.**
- Even more—28 percent of survey respondents—agreed that “There are a lot of people who are not looking for work because they can do almost or just as well collecting unemployment benefits.”
- **Other common factors contributing to unemployed Americans not looking for work included childcare and other family care needs (24%), a lack of available jobs due in sectors that are still suffering (28%), and COVID-19 concerns (26%).**
- Nearly one in four respondents (23%) said they lacked the skills or experience necessary for most of the jobs available right now.

Indeed survey shows similar results that vary by educational attainment

COVID-19 is the biggest factor for non-college unemployed

Reasons for 'not urgent' job search by education



Source: Indeed Hiring Lab Job Seeker Survey



Source: Annual Social and Economic Supplement of the Current Population Survey

Where does LFP rate go from here?

- It may be unreasonable to expect a full recovery given trends prior to COVID and patterns observed in the last 1.5 years.
- Based on survey results, the following should improve LFP:
 - Decreases in COVID rates
 - More normal school/childcare schedules
 - People feeling comfortable accessing long-term care for their elderly relatives
 - Reductions in government support
- There is evidence of wage increases, especially at the lowest wage levels. This may induce more people to reenter the labor force.
- There may be opportunities to introduce policies that could improve labor force outcomes. Examples could include:
 - Incentives to return to school (especially short-term training programs)
 - Government retention/employment bonuses rather than UI support

Questions/Comments?

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