

April 8, 2014

A Closer Look at Post-2007 Labor Force Participation Trends

Editor's note: Since this post was written, we have developed new tools for examining labor market trends. For a more detailed examination of factors affecting labor force participation rates, please visit our [Labor Force Participation Dynamics](#) web page, where you can create your own charts and download data.

Introduction

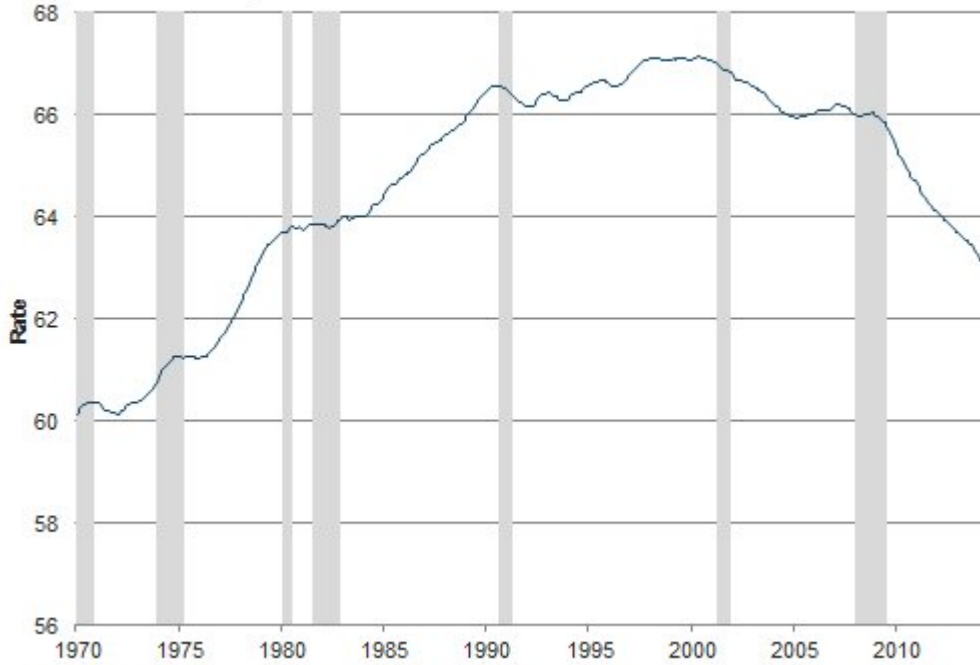
The rate of labor force participation (the share of the civilian noninstitutionalized population aged 16 and older in the labor force) has declined significantly since 2007. To what extent were the Great Recession and tepid recovery responsible?

In this post and one that will follow, we offer a series of charts using data from the [Current Population Survey](#) to explore some of the possible reasons behind the 2007–13 drop in participation. This first post describes the impact of the changing-age composition of the population and changes in labor force participation within specific age cohorts—see *Calculated Risk* posts [here](#) and [here](#) for a related treatment, and also this recent [BLS study](#). The next post will look at the issue of potential cyclical impacts on participation by examining the behavior of the prime-age population.

Putting the decline in context

After rising from the mid-1960s through 1990, the overall labor force participation rate was relatively stable between 1990 and 2007. But participation has declined sharply since 2007. By 2013, participation was at the lowest level since 1978 (see chart 1).

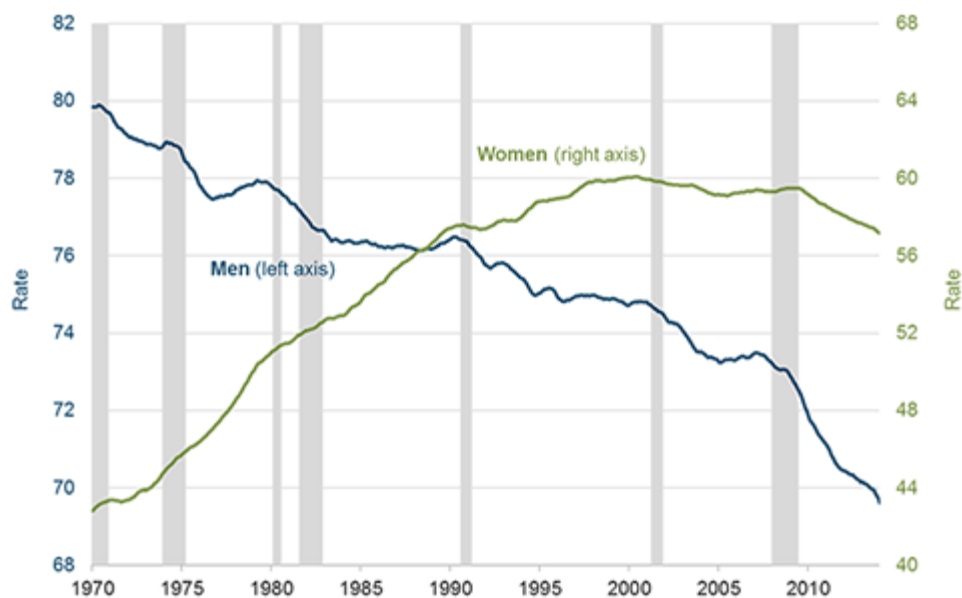
Chart 1
Labor Force Participation Rate



Source: U.S. Census Bureau/ BLS Current Population Survey

For men, the longer-term declining trend of participation accelerated after 2007. For women, after having been relatively stable since the late 1990s, participation began to decline after 2009. The decline for both males and females since 2009 was similar (see chart 2).

Chart 2
Labor Force Participation Rate of Men and Women

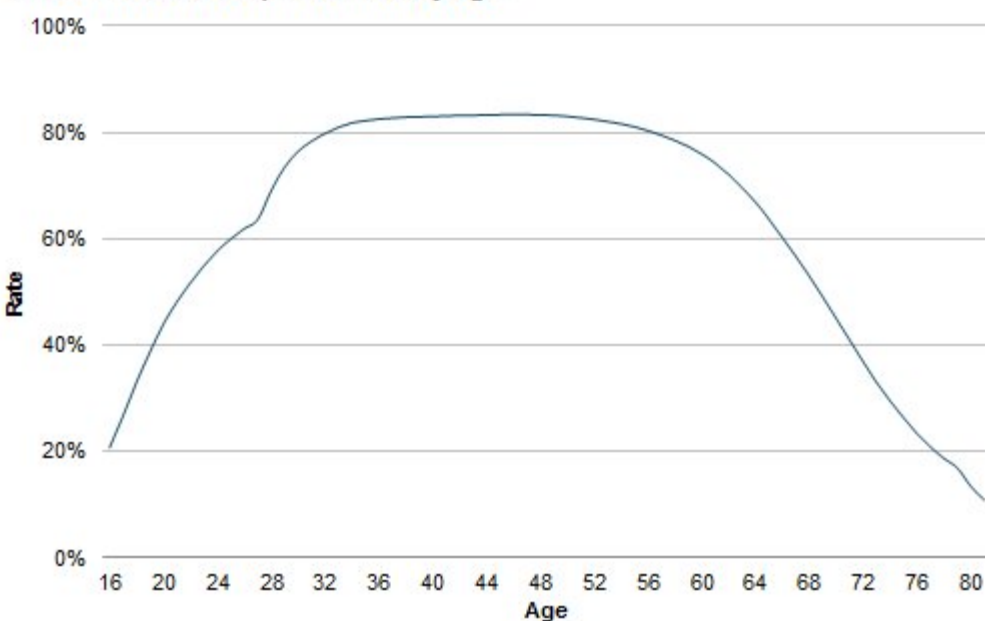


Sources: U.S. Census Bureau/BLS Current Population Survey, Haver Analytics

The impact of retirement

One of the most important features of labor force participation is that it varies considerably over the life cycle: the rate of participation is low among young individuals, peaks during the prime-age years of 25 to 54, and then declines (see chart 3). So a change in the age distribution of the population can result in a significant change in overall labor force participation.

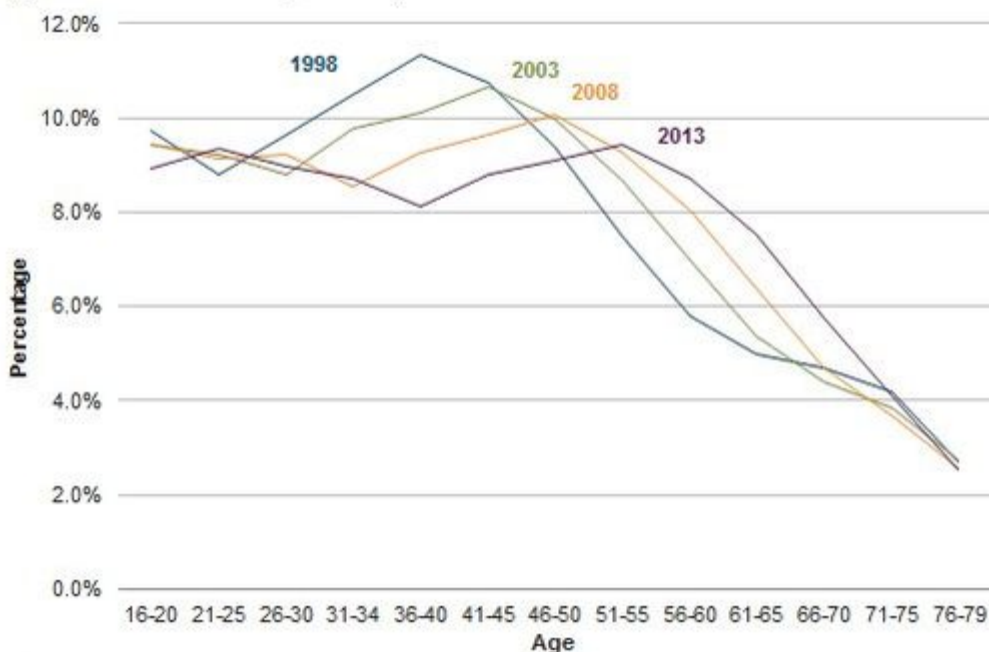
Chart 3
Labor Force Participation Rate by Age



Sources: U.S. Census Bureau/ BLS Current Population Survey, author's calculations

The age distribution of the population has been shifting outward for some time. This is a result of the so-called *baby boomer generation*—that is, people born between 1946 and 1964 (see chart 4). The oldest baby boomers turned 62 in 2008 and became eligible for Social Security retirement benefits.

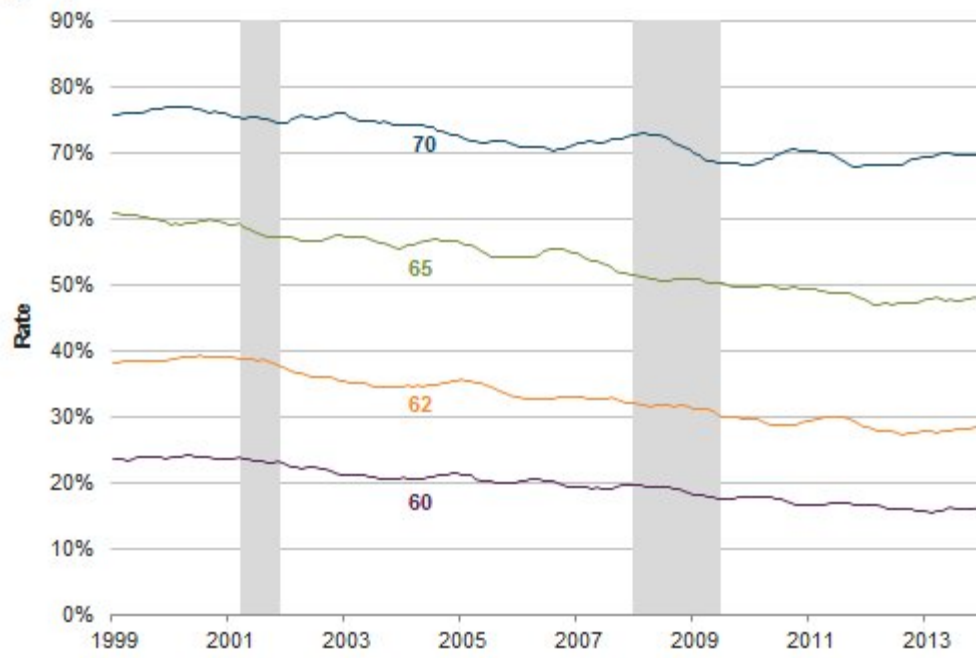
Chart 4
Age Distribution of Population, for Selected Years



Sources: U.S. Census Bureau/ BLS Current Population Survey, author's calculations

At the same time the age distribution of the population has shifted out, the rate of retirement of older Americans has been declining. Retirement rates have generally been drifting down since the early 2000s (see chart 5). The decline in age-specific retirement rates has resulted in rising age-specific labor force participation rates. For example, from 1999 to 2013, the share of 62-year-old retirees declined from 38 percent to 28 percent. The BLS projects that this trend will continue at a similar pace in coming years (see [table 3 of the BLS report](#)).

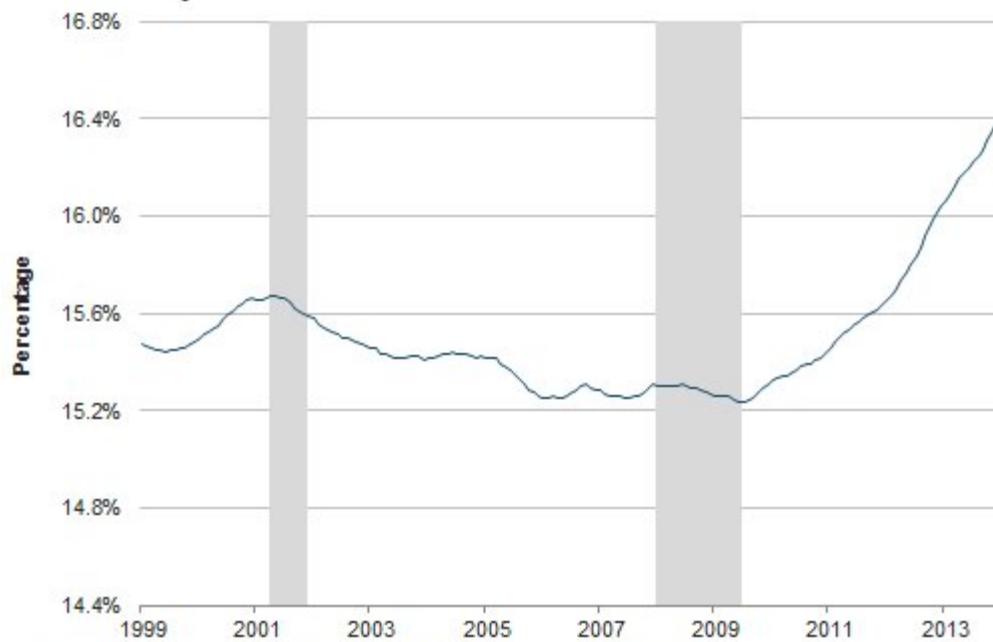
Chart 5
Age-Specific Retirement Rates over Time



Sources: U.S. Census Bureau/ BLS Current Population Survey, author's calculations

Although the decline in the propensity to retire has put some upward pressure on overall labor force participation, that effect is dominated by the sheer increase in the number of people reaching retirement age. The net result has been a steep rise in the share of the population saying they are not in the labor force because they are retired (see chart 6).

Chart 6
Share of Population Who Don't Want Jobs Because They Are Retired

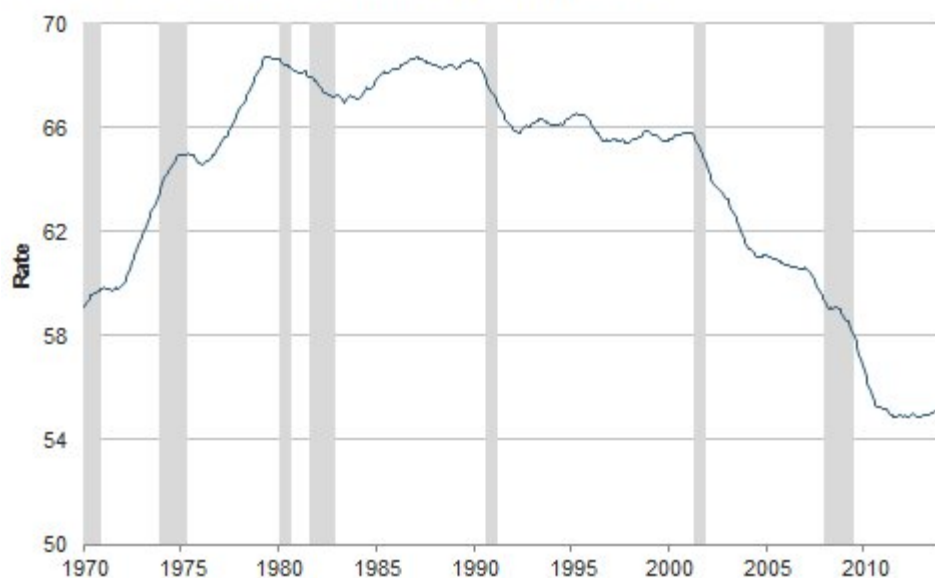


Sources: U.S. Census Bureau/ BLS Current Population Survey, Author's Calculations

Participation by age group
Individuals aged 16–24

The labor force participation rate for young individuals (between 16 and 24 years old) has been generally declining since the late 1990s. After slowing in the mid-2000s, the decline accelerated again during the Great Recession. However, participation has been relatively stable since 2009 (see chart 7). Nonetheless, the BLS projects that the participation rate for 16- to 24-year-olds will decline further, albeit at a slower pace than it declined between 2000 and 2009, and will fall a little below 50 percent by 2022.

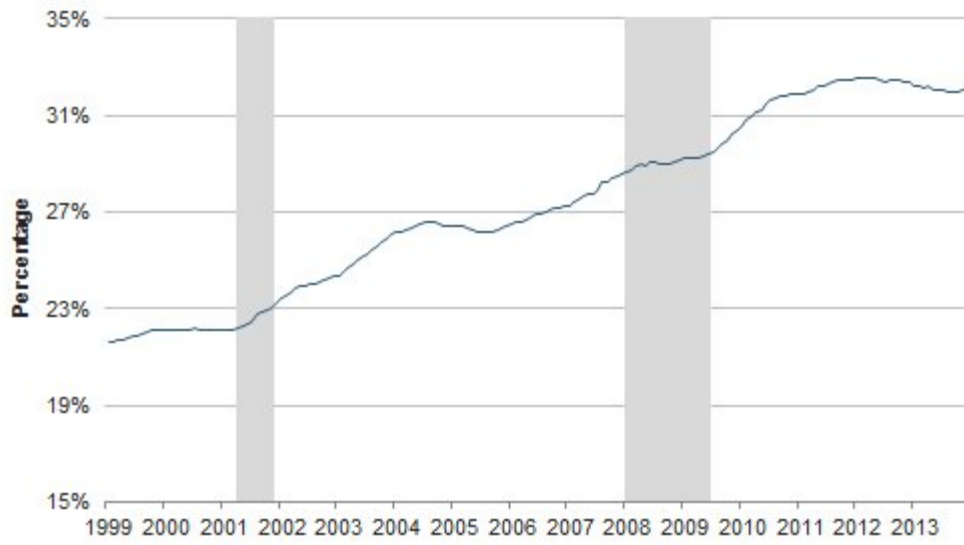
Chart 7
Labor Force Participation Rate: 16 to 24 year olds



Sources: U.S. Census Bureau/BLS Current Population Survey, Haver Analytics

The change in participation among young people can be attributed almost entirely to enrollment rates in education programs (see [here](#)) and lower labor force participation among enrollees (see chart 8). The change in the share of 16- to 24-year-olds who say they don't currently want a job because they are in school closely matches the change in labor force participation for the entire cohort.

Chart 8
Share of 16 to 24 Year Olds Who Don't Want Jobs Because They Are in School or Training



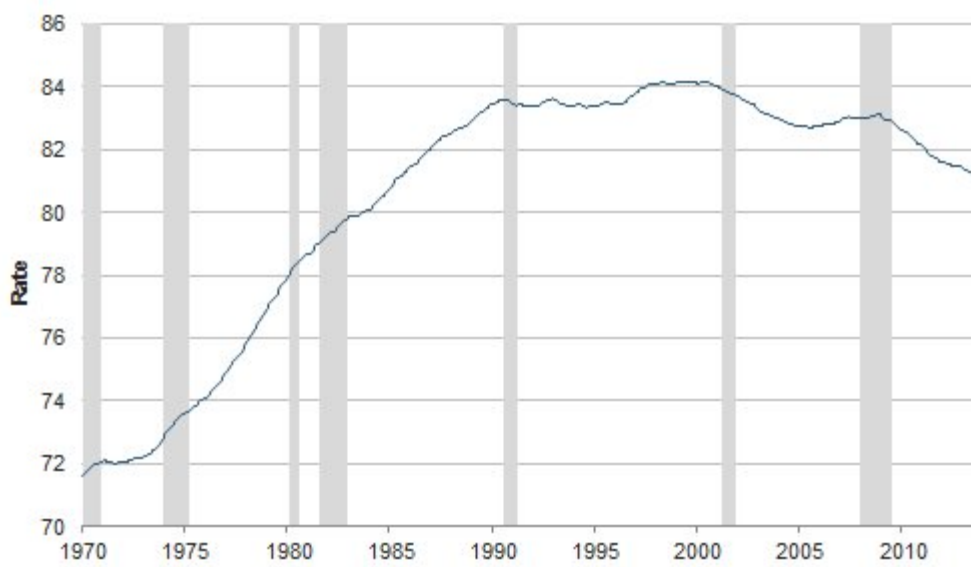
Sources: U. S. Census Bureau/BLS Current Population Survey, author's calculations

Individuals aged 25–54 (prime age)

Generally, people aged 25 to 54 are the group most likely to be participating in the labor market (see chart 3). These so-called prime-age individuals are less likely to be making retirement decisions than older individuals, and less likely to be enrolled in schooling or training than younger individuals.

However, the prime-age labor force participation rate declined considerably between 2007 and 2013, and at a much faster pace than had been seen in the years prior to the recession (see chart 9). Reflective of the overall gender-specific participation differences seen in chart 2, the decline in prime-age female participation did not take hold until after 2009, and since 2009 the decline in both prime-age male and female participation has been quite similar. Nevertheless, the BLS projects that prime-age participation will stabilize in coming years and prime-age participation in 2022 will be close to its 2013 level.

Chart 9
Labor Force Participation Rate: 25 to 54 year olds

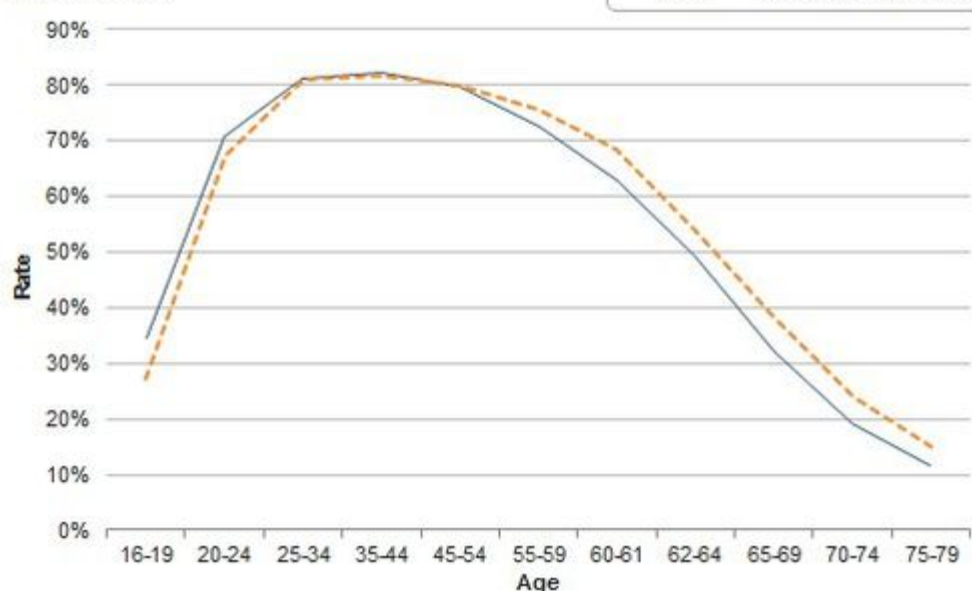


Sources: U. S. Census Bureau/BLS Current Population Survey, Haver Analytics

Implications

The BLS projects that participation by age group will look like this in 2022 relative to 2013 (see chart 10).

Chart 10
Labor Force Participation Rate by Age, Select Years

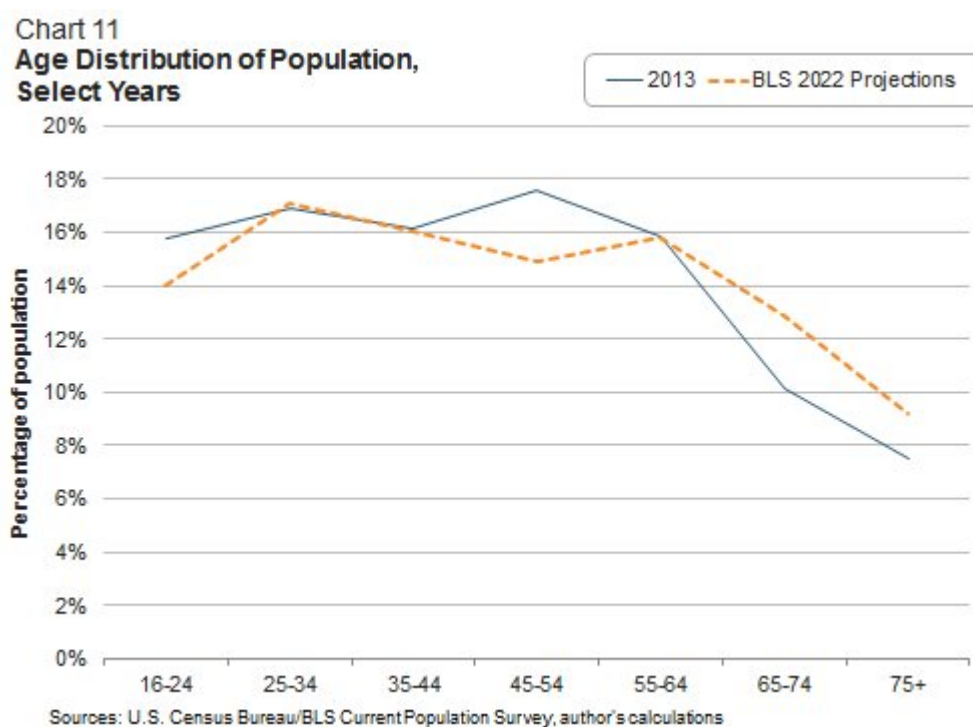


Sources: U. S. Census Bureau/BLS Current Population Survey, author's calculations

Participation by youths is projected to continue to fall. The participation of older workers is projected to increase, but it will remain significantly lower than that of the prime-age group. Combined with an age distribution that has also continued to shift outward (see

chart 11), the overall participation rate is expected to decline over the next several years from its 2013 level of around 63.3 percent. From the BLS study:

A combination of demographic, structural, and cyclical factors has affected the overall labor force participation rate, as well as the participation rates of specific groups, in the past. BLS projects that, as has been the case for the last 10 years or so, these factors will exert downward pressure on the overall labor force participation rate over the 2012–2022 period and the rate will gradually decline further, to 61.6 percent in 2022.



However, an important assumption in the BLS projection is that the post-2007 decline in prime-age participation will not persist. Indeed, the data for the first quarter of 2014 does suggest that some stabilization has occurred.

But separating what is trend from what is cyclical is challenging. The rapid pace of the decline in participation among the prime-age population between 2007 and 2013 is somewhat puzzling. Could this decline reflect a temporary cyclical effect or something more permanent? A follow-up blog will explore this question in more detail using the micro data from the Current Population Survey.

Note: All data shown are 12-month moving averages to emphasize persistent shifts in trends.

Update: The authors acknowledge a debt to Tomaz Cajner and Bruce Fallick for their influence on some of this material. We regret inadvertently omitting this acknowledgement in the original post.

By [Melinda Pitts](#), director, Center for Human Capital Studies,

[John Robertson](#), a vice president and senior economist in the Atlanta Fed's research department, and

[Ellyn Terry](#), a senior economic analyst in the Atlanta Fed's research department

April 8, 2014 in [Business Cycles](#), [Employment](#), [Unemployment](#) | [Permalink](#)