

April 10, 2014

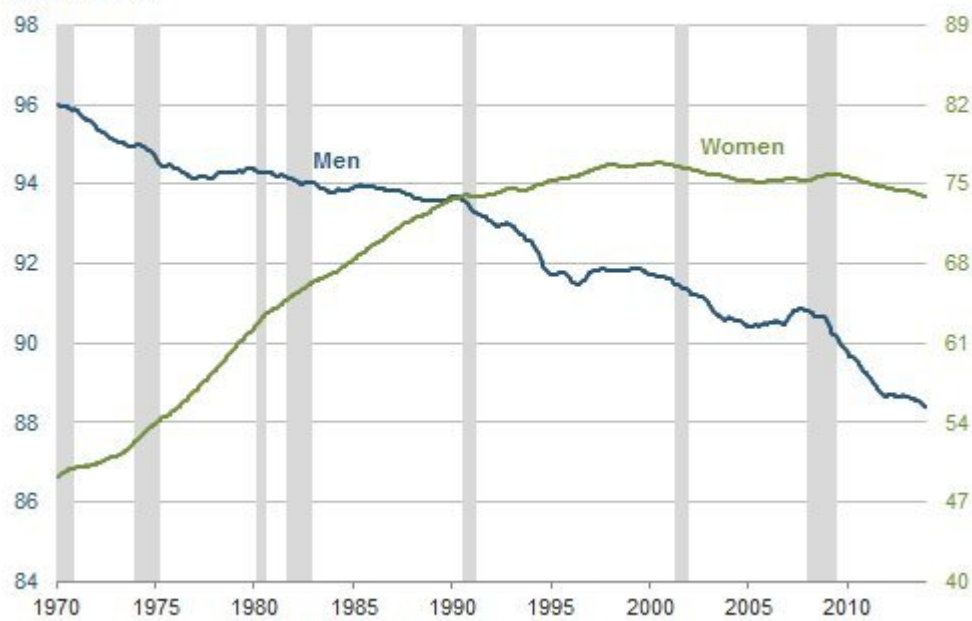
## Reasons for the Decline in Prime-Age Labor Force Participation

*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.

As a follow up to [this post](#) on recent trends in labor force participation, we look specifically at the prime-age group of 25- to 54-year-olds. The participation decisions of this age cohort are less affected by the aging population and the longer-term trend toward lower participation of youths because of rising school enrollment rates. In that sense, they give us a cleaner window on responses of participation to changing business cycle conditions.

The labor force participation rate of the prime-age group fell from 83 percent just before the Great Recession to 81 percent in 2013. The participation rate of prime-age males has been trending down since the 1960s. The participation rate of women, which had been rising for most of the post-World War II period, appears to have plateaued in the 1990s and has more recently shared the declining pattern of participation for prime-age men. But the decline in participation for both groups appears to have accelerated between 2007 and 2013 (see chart 1).

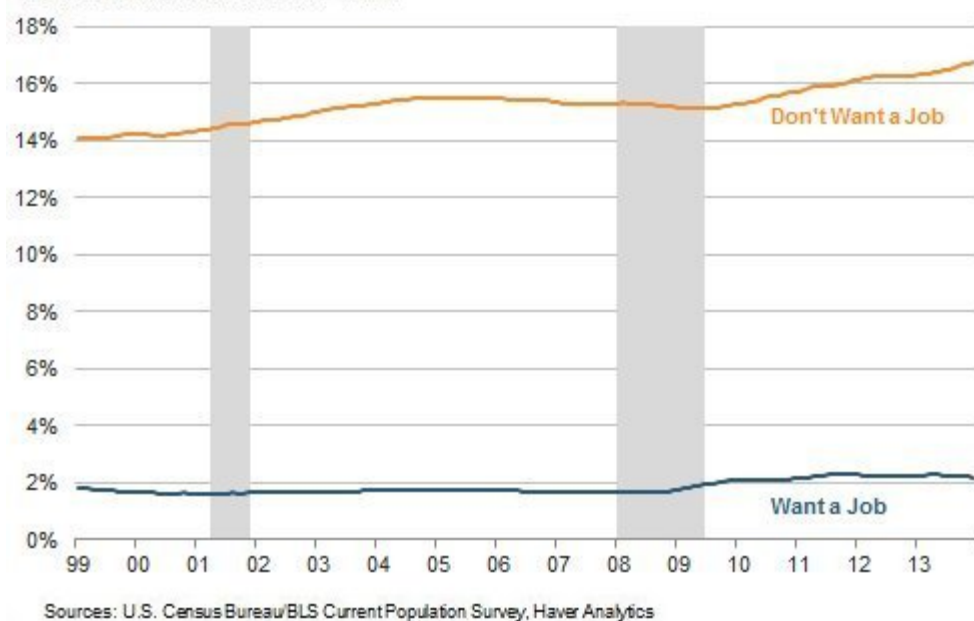
Chart 1  
Labor Force Participation Rate of Prime-Age (25–54) Men and Women



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

We look at the various reasons people cite for not participating in the labor force from the monthly [Current Population Survey](#). These reasons give us some insight into the impact of changes in employment conditions since 2007 on labor force participation. The data on those not in the official labor force can be broken into two broad categories: those who say they don't currently want a job and those who say they do want a job but don't satisfy the active search criteria for being in the official labor force. Of the prime-age population not in the labor force, most say they don't currently want a job. At the end of 2007, about 15 percent of 25- to 54-year-olds said they didn't want a job, and slightly fewer than 2 percent said they did want a job. By the end of 2013, the don't-want-a-job share had reached nearly 17 percent, and the want-a-job share had risen to slightly above 2 percent (see chart 2).

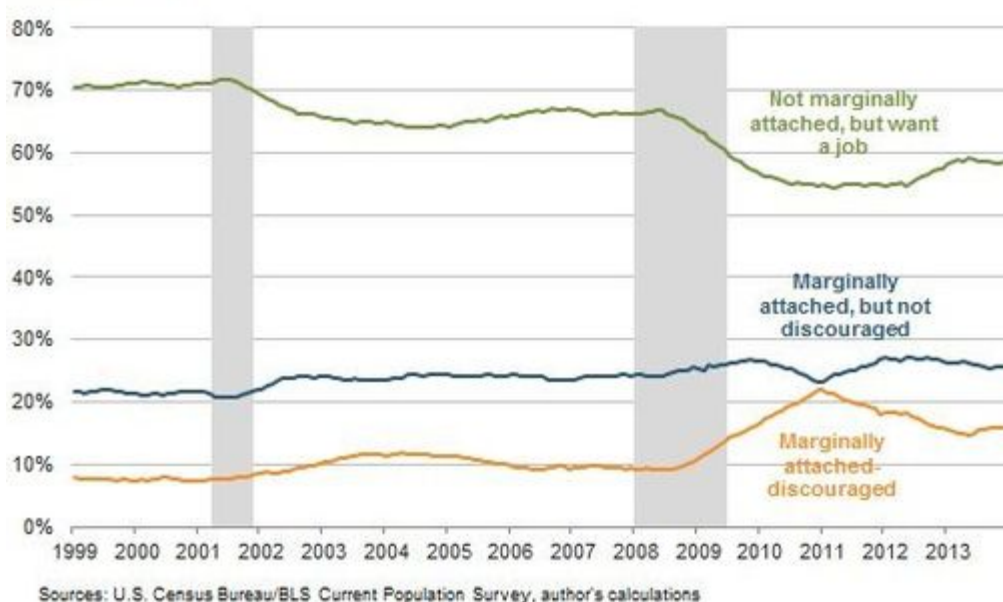
Chart 2  
Share of 25- to 54-Year-Olds



**Prime-Age Nonparticipation: Currently Want a Job**

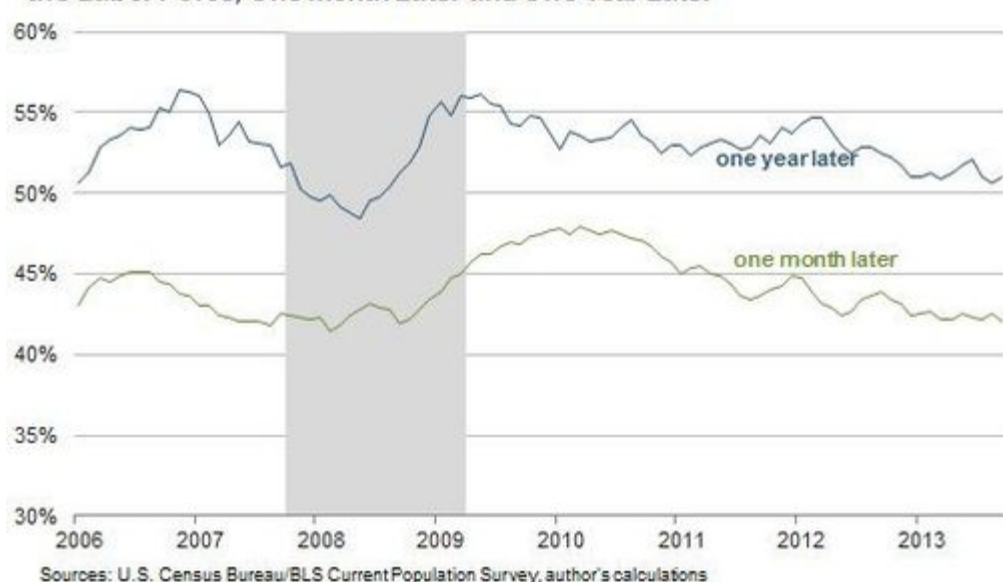
Most of the rise in the share of the prime-age population in the want-a-job category is due to so-called *marginally attached* individuals—they are available and want a job, have looked for a job in the past year, but haven't looked in the past four weeks—especially those who say they are not currently looking because they have become discouraged about job-finding prospects (see the blue and orange lines of chart 3). In 2013, there were about 1.1 million prime-age marginally attached individuals compared to 0.7 million in 2007, and the prime-age marginally attached accounted for about half of all marginally attached in the population.

Chart 3  
Share of 25- to 54-Year-Olds Who Are Not in the Labor Force and Want a Job



The marginally attached are aptly named in the sense that they have a reasonably high propensity to reenter the labor force—more than 40 percent are in the labor force in the next month and more than 50 percent are in the labor force 12 months later (see chart 4). [This macroblog post](#) discusses what the relative stability in the flow rate from marginally attached to the labor force means for thinking about the amount of slack labor resources in the economy.

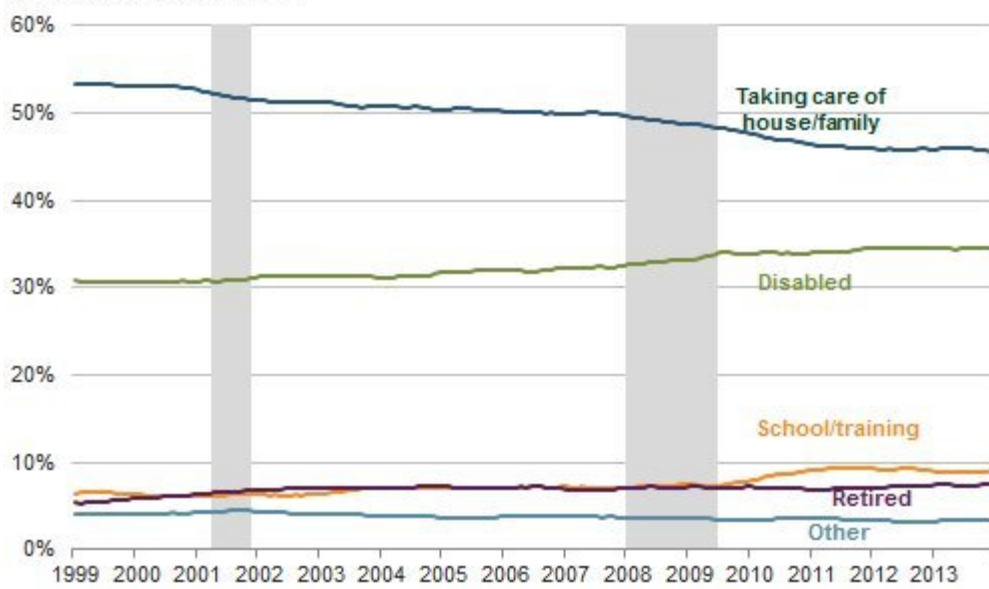
Chart 4  
Share of Marginally Attached 25- to 54-Year-Olds Who Are in the Labor Force, One Month Later and One Year Later



**Prime-Age Nonparticipation: Currently Don't Want a Job**

As chart 2 makes evident, the vast majority of the rise in prime-age nonparticipation since 2009 is due to the increase in those saying they do not currently want a job. The largest contributors to the increase are individuals who say they are too ill or disabled to work or who are in school or training (see the orange and blues lines in chart 5).

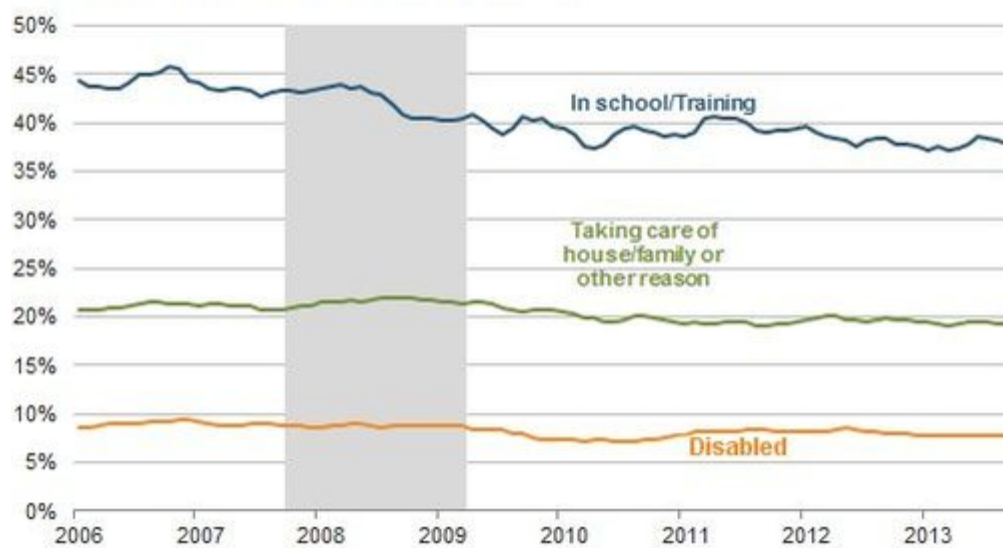
Chart 5  
**Share of 25- to 54-Year-Olds Who Are Not in the Labor Force and Don't Want a Job**



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

Those who say they don't want a job because they are disabled have a relatively low propensity to subsequently (re)enter the labor force. So if the trend of rising disability persists, it will put further downward pressure on prime-age participation. Those who say they don't currently want a job because they are in school or training have a much greater likelihood of (re)entering the labor force, although this tendency has declined slightly since 2007 (see chart 6).

Chart 6  
**Share of Non-Labor Force Participants Aged 25-54 Who Are in the Labor Force One Year Later, by Reason**

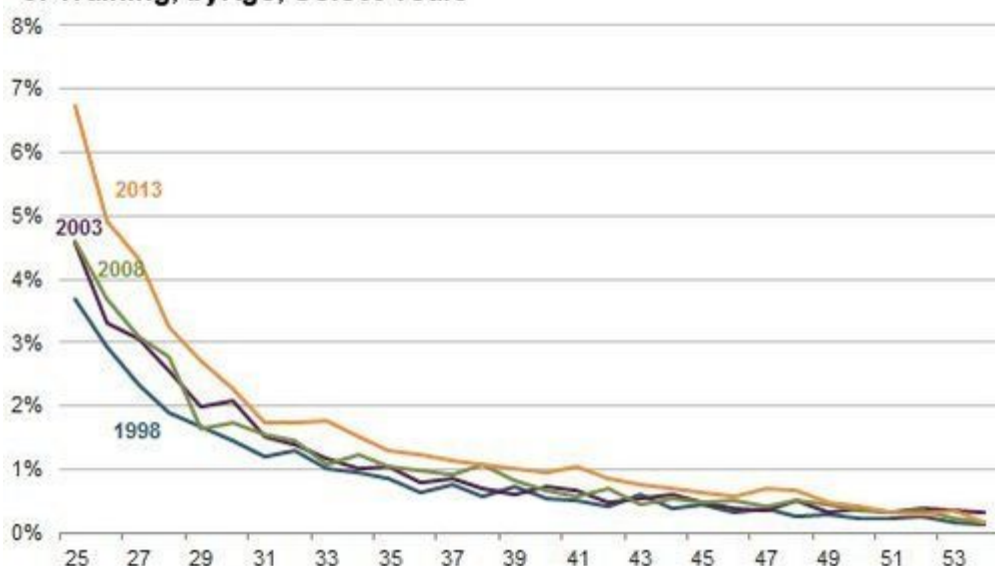


Sources: U.S. Census Bureau/BLS Current Population Survey, author's calculations

Note that the number of people in the Current Population Survey citing disability as the reason for not currently wanting a job is not the same as either the number of people applying for or receiving social security disability insurance. However, a similar trend has been evident in overall disability insurance applications and enrollments (see [here](#)).

Some of the rise in the share of prime-age individuals who say they don't want a job could be linked to erosion of skills resulting from prolonged unemployment or permanent changes in the composition of demand (a different mix of skills and job descriptions). It is likely that the rise in share of prime-age individuals not currently wanting a job because they are in school or in training is partly a response to the perception of inadequate skills. The increase in recent years is evident across all ages until about age 50 but is especially strong among the youngest prime-age individuals (see chart 7).

Chart 7  
**Share Who Don't Want a Job Because They Are in School or Training, by Age, Select Years**



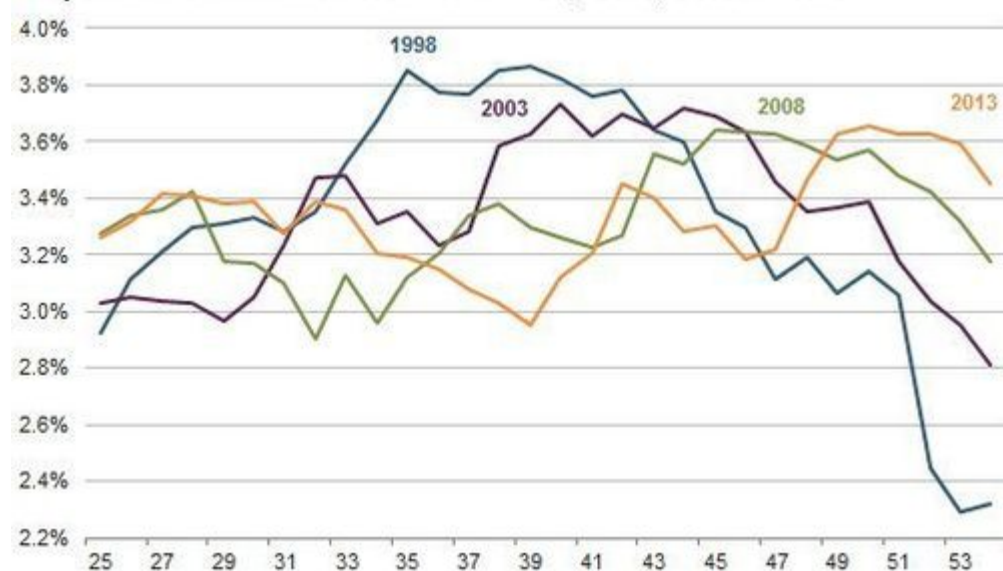
Sources: U.S. Census Bureau/BLS Current Population Survey, author's calculations

But lack of required skills is not the only plausible explanation for the rise in the share of prime-age individuals who say they don't



currently want a job. For instance, the increased incidence of disability is partly due to changes in the age distribution within the prime-age category. The share of the prime-age population between 50 and 54 years old—the tail of the baby boomer cohort—has increased significantly (see chart 8).

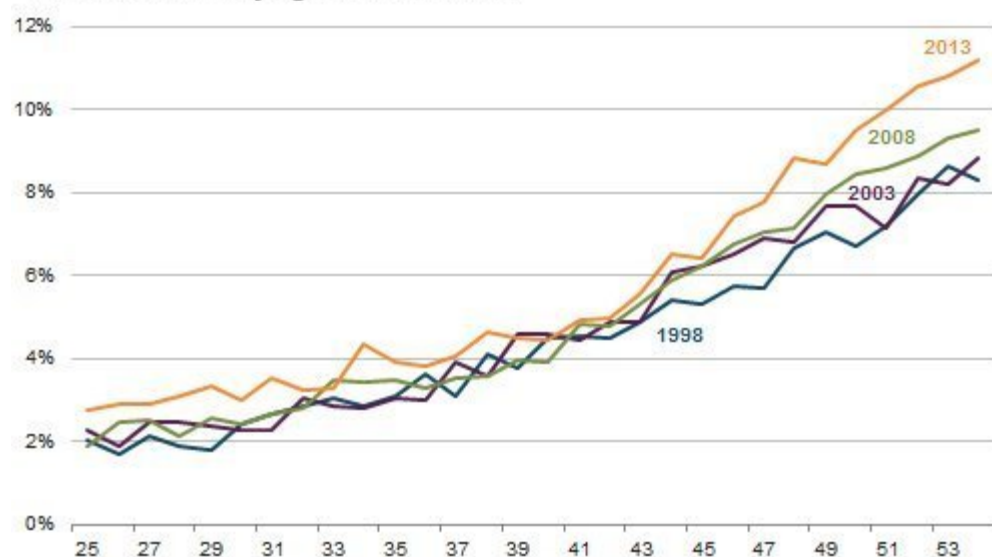
Chart 8  
Population Distribution of 25- to 54-Year-Olds, Select Years



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

This increase is important because the incidence of reported disability within the prime-age population increases with age and has become more common in recent years, especially for those older than 45 (see chart 9).

Chart 9  
Share Who Don't Want a Job Because They Are Disabled or Ill, by Age, Select Years



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

## Conclusions

The health of the labor market clearly affects the decision of prime-age individuals to enroll in school or training, apply for disability insurance, or stay home and take care of family. Discouragement over job prospects rose during the Great Recession, causing many unemployed people to drop out of the labor force. The rise in the number of prime-age marginally attached workers reflects this trend and can account for some of the decline in participation between 2007 and 2009.

But most of the postrecession rise in prime-age nonparticipation is from the people who say they don't currently want a job. How much does that increase reflect trends established well before the recession, and how much can be attributed to the recession and slow recovery? It's hard to say with much certainty. For example, participation by prime-age men has been on a secular decline for decades, but the pace accelerated after 2007—see [here](#) for more discussion.

Undoubtedly, some people will reenter the labor market as it strengthens further, especially those who left to undertake additional training. But for others, the prospect of not finding a satisfactory job will cause them to continue to stay out of the labor market. The increased incidence of disability reported among prime-age individuals suggests permanent detachment from the labor market and will put continued downward pressure on participation if the trend continues. The Bureau of Labor Statistics [projects](#) that the prime-age participation rate will stabilize around its 2013 level. Given all the contradictory factors in play, we think this projection should have a pretty wide confidence interval around it.

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

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