July 31, 2017

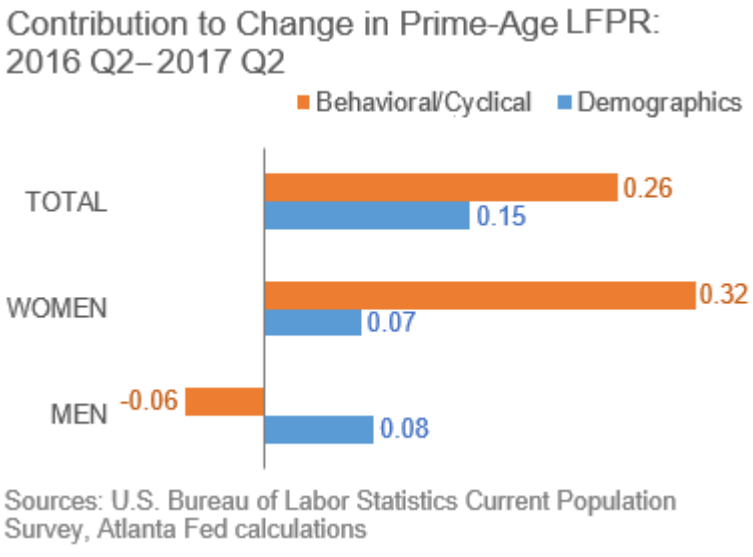
Behind the Increase in Prime-Age Labor Force Participation

Prime-age labor force participation has been on a tear recently. Over the last eight quarters, it is up by about 65 basis points (bps) and more than 40 bps in just the last year. When combined with declines in the rate of unemployment, this increase has helped lift the employment-to-population (EPOP) ratio for this key population group by around 120 bps during the last two years.

Placed in the context of an almost 260 bp decline in the prime-age EPOP ratio between 2007 and 2015, this development is significant. Although the unemployment rate is close to what most economists consider full employment, rising labor force participation can indicate that the labor market might still have some room to run before the employment gap is fully closed. (The Congressional Budget Office offers some analysis consistent with this idea.)

So what's behind the increase in prime-age (defined as people between 25 and 54) participation in the last year? Changes in the labor force participation rate (LFPR) either can be the result of changes in the mix of demographic groups in the population with different average rates of participation (for example, across education and race/ethnicity), or they can result from changes in average participation rates within demographic groups. It turns out that most of the increase in the prime-age LFPR has been because of increased LFPR within demographic groups—in particular, prime-age women and especially women without a college degree. Prime-age men have not contributed much to the rise in participation beyond the increased participation associated with a more educated population.

The following chart shows the contribution to the change in the prime-age LFPR over the last year as a result of changes in the relative mix of age-education-race groups (the blue bars) and changes in participation rates within age-education-race groups (the orange bars). It shows the contribution from both sexes combined and from prime-age women and men separately.

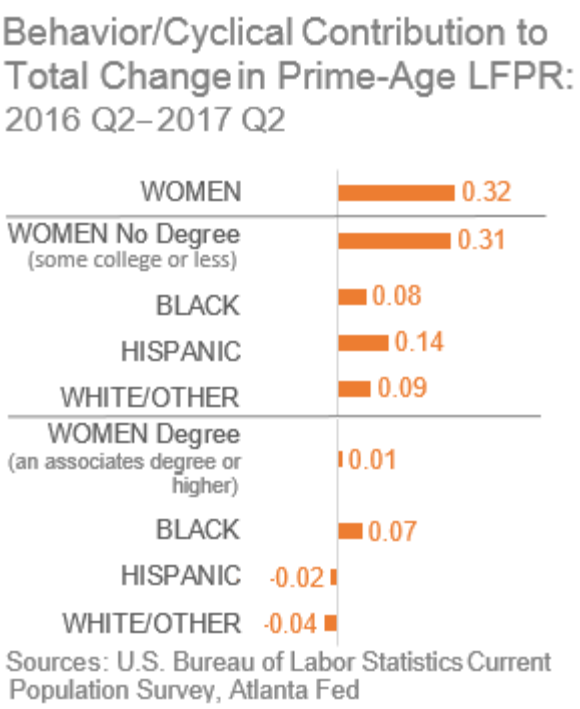


Note that the we computed the contributions using six five-year age groups, three education groups (less than high school, high school but no college degree, and college degree), three race/ethnicity groups (Hispanic, non-Hispanic black, and non-Hispanic white/other), and two sexes.

Of the total increase in the prime-age LFPR, most of that was the result of changes in labor force participation behavior within female demographic groups. In fact, changes in LFPR behavior from prime-age men served as a drag on the overall prime-age LFPR. The modestly positive demographic effect on the LFPR for both men and women reflects the higher LFPR for those with a college degree and the relative increase in the share of both prime-age men and women with a college degree.

This development stands in contrast to the drivers of the change in the prime-age LFPR between 2015 and 2016. Of the 24 bp increase in prime-age LFPR between the second quarters of 2015 and 2016, changes in the demographic composition of the population (primarily increased education levels) accounted for all of it rather than changes in average participation rates within demographic groups.

The next chart shows the contribution to the change in the prime-age LFPR between 2016 and 2017 due to changes in the LFPR behavior of women for specific education-race groups.



As the chart shows, the bulk of the demographically adjusted contribution from female labor force participation came from women without a college degree, and the largest contribution across female education-race groups was from Hispanics without a college degree. The increase in labor force participation among women with less education is consistent with evidence of recent improvement in the wage gains for relatively low-wage earners.

Although this simple decomposition doesn't explain why nondegreed women are increasingly finding the labor force to be an attractive option, we can infer some clues by looking at changes in the reasons people give for not participating. In particular, the largest contribution from changes in behavior among prime-age women over the last year came from a decrease in the propensity to be out of the labor force because of poor health or being in the shadow labor force (wanting a job but not looking).

Recently, former Minneapolis Fed President Narayana Kocherlakota has argued that macroeconomists should take more seriously the differences in behavior across demographic groups. The Atlanta Fed's Labor Force Dynamics web page contains more information on the behavioral trends in the reasons people give for not participating in the labor force across demographic groups, and the page was just updated to include data for the second quarter of 2017. Check it out, and we'll keep reporting here on the relative contributions to the labor force of behavioral versus demographic changes—and whether the winning streak for prime-age labor force participation continues.

By Whitney Mancuso, a senior economic analyst, and

John Robertson, a senior policy adviser, both in the Atlanta Fed's research department

July 31, 2017 in Economic Conditions, Employment, Wage Growth | Permalink