Prospects for a Recovery in Labor Force Participation

Executive Summary
Prior to the COVID-19 pandemic, U.S. labor force participation was finally turning around. Overall labor force participation had reached a seven-year high, while participation among prime-age workers (25-54) had come within a whisker of its pre-recession rate (Figures 1 & 2). But the steps that have been put in place to combat the spread of the pandemic have wiped out the job market’s gains of the past decade, and the rate of labor force participation has also lurched down sharply. To what extent might labor force participation recover this time around?

We see a number of hurdles that likely will prevent a quick recovery in labor force participation. A greater risk profile for COVID-19 among older workers will probably keep a significant share on the sidelines until a vaccine becomes widely available. Meanwhile, prime-age women are likely to disproportionately bear the burden of at-home schooling this fall, which we expect to delay the return for some to the workforce. Perhaps most importantly, a lack of available jobs as the economy operates at a reduced capacity should keep workers across the age-spectrum from engaging in the labor market in the near term.

Once the virus is brought under control and business activity can return to some semblance of “normal,” we expect improved job opportunities to pull participation higher. But the recovery in the participation rate will be slow amid a protracted rebound in employment, even as the pandemic’s out-sized effects on participation rates among older workers and prime-age women are likely to prove temporary.

Figure 1
Labor Force Participation Rate: A Brief Review
The labor force participation rate captures the share of the population age 16 years and older that is either employed or actively looking for a job (i.e., unemployed). The participation rate reflects the economy’s current health, as a strong jobs market can lure people into the labor force, and vice versa, as has been the case in recent months. Over a longer time horizon, labor force participation...
is a key factor in an economy’s potential output; an economy can produce more the greater amount of labor at its disposal, all else equal, which in turn raises living standards.

Growth in the economy’s productive capacity weakened in the wake of the Great Recession due, in no small part, to slower growth in the labor force. Although young individuals continued to seek employment, growth in the total labor force was held back by the trend decline in the overall participation rate between 2008 and 2015. For some groups, the modest recovery in labor force participation between 2016 and early 2020 was not only protracted, but incomplete. For example, the participation rate among prime-age men at the start of 2020 was still 1.7 percentage points lower than it was in 2007 (Figure 2). Young workers (ages 16-24) were also less likely to be employed or looking for work, with the rate of labor force participation down nearly six percentage points since the onset of the Great Recession.

Some groups, on the other hand, experienced a complete recovery in labor force participation. Prime-age women at the start of this year were more likely to be in the labor market than at any point since almost 2000 (refer back to Figure 2). Uniquely, participation among seniors (ages 65+) continued to climb through the past recession, and at the end of the record-long expansion reached its highest rate in nearly 60 years (Figure 3). With older workers having significantly lower rates of labor force participation, population aging still depressed total participation, but the changing behavior of older workers (i.e., within cohort effects) at least mitigated the decline.

**Figure 3**

**Figure 4**

Source: U.S. Department of Labor and Wells Fargo Securities

**The Short-Term Outlook: History Won’t Repeat for Key Groups**

As we look ahead to how labor force participation may evolve from here, we see a few stumbling blocks over the next six months or so. First, the trend of rising labor force participation among older workers has come to an abrupt halt with the emergence of COVID-19. Seniors are more susceptible to the virus, making in-person work particularly risky from a health perspective. Whereas the participation rate for seniors continued to trend higher during the 2007-2009 recession, it has fallen 1.3 points from its February peak. That equates to a 4.6% decline in the labor force of that cohort, the steepest drop among age groups with the exception of very young workers. We would expect to see labor force participation among workers ages 65+ to remain depressed until a vaccine for COVID-19 is widely available.

Similarly, we expect the lift to total labor force participation—that has been brought about by prime-age women in recent years—to be much less pronounced in coming months. Thus far the drop in participation among prime-age women has been roughly in line with the total drop in the participation rate since the pandemic struck (about a two percentage point decline). But with many schools not opening for full-time in-person instruction this fall, we fear participation among this group may be particularly slow to recover. Women spend about twice as much time per day taking
care of others (both children and other adults) than men. At the same time, prime-age women are much more likely to report wanting a job but are not in the labor force due to childcare problems or family responsibilities (Figure 5). Child and other family care issues therefore could stymie the return to work for prime-age women even as job opportunities become more widespread in coming months.

**Figure 5**

Reason Prime-Age Workers Aren’t in the Labor Force Despite Wanting a Job

Thousands, 2019 Annual Average

<table>
<thead>
<tr>
<th>Reason</th>
<th>Women Ages 25-54</th>
<th>Men Ages 25-54</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Care Problems</td>
<td>350</td>
<td>200</td>
</tr>
<tr>
<td>Family Responsibilities</td>
<td>50</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: U.S. Department of Labor and Wells Fargo Securities

Finally, the mere dearth of jobs could weigh on labor force participation in the near term. An abundance of opportunities can attract individuals who were not expressly looking for employment into the labor market. Conversely, a lack of available jobs in a weak labor market can discourage some from even searching for a job. Consequently, these individuals would not be counted as part of the labor force. As a result, employment and labor force growth are highly correlated (Figure 6). In that regard, we expect that the unemployment rate likely will remain elevated through at least the end of next year.

With so many businesses operating at reduced capacity, if at all, a lack of job opportunities has driven millions of Americans out of the labor force. Participation among young workers has been particularly hard hit (refer back to Figure 4). Workers ages 16-24 are especially likely to be employed in the leisure & hospitality sector, where employment has suffered the steepest decline among major industries. We would expect participation to remain well below pre-COVID levels until the virus is brought under control and business returns to some semblance of “normal.”

**Long-Term: COVID and the Recession to be Only a Temporary Setback**

Taken together, we expect the labor force participation rate to remain well below its pre-pandemic rate until the coronavirus is brought under control on a sustained basis. Even then, the participation rate likely will not snap back immediately to the 63.4% rate registered in February. We expect that the jobs market will not regain its pre-COVID vigor for quite some time, which will weigh on participation beyond the immediate health crisis. Countless businesses have failed already, and most of those that make it through the pandemic will be grappling with lackluster sales for at least the next year or two. Therefore, employers likely will be generally cautious in bringing on new workers, pushing a full recovery in employment well beyond the end of next year (Figure 7).

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2 The labor force is comprised of those individuals who are either employed or actively searching for a job.
3 See the forecasts contained in our *Monthly Economic Outlook* for details.
4 In 2019, workers ages 16-24 accounted for 33% of the leisure & hospitality industry’s employment versus 12% of employment across all industries.
Factors pushing the labor force participation rate up before the pandemic should eventually reassert themselves.

But some factors that helped to push the labor force participation rate higher before the pandemic struck should eventually reassert themselves. For starters, the drivers of higher labor force participation among older workers over the past few decades have not disappeared. Americans are still facing longer life expectancies, working less physically-demanding jobs and needing to save for their own retirement as defined benefit plans disappear. These factors should help the participation rate for workers aged 65+ to resume its upward trend, and mitigate the downward effects of an aging population on the overall participation rate.

Similarly, the specific impediments to participation among prime-age women are likely only transitory. Employment among women has benefited from rising college attainment and a long-term shift in the country’s industry structure, which we believe is only temporarily disrupted. Educational attainment is positively associated with labor force participation, and women are more likely to work in services, which has been the primary driver of employment growth in recent decades (Figure 8).

At the same time, the COVID-19 pandemic may leave some lasting imprints on work and family life that benefit female participation. For example, growing comfort with employees working from home may mitigate the need for some women to choose between paid work and family care.5 The pandemic-induced recession is also expected to reduce the birthrate in the short run as well as lower the number of children some women have in total.6 Since participation tends to drop among mothers with young children, smaller families could offer some modest support to participation among women of child-rearing years down the road.

**Conclusion: Don’t Expect a Fast Recovery in Labor Force Participation**

The labor force participation rate, which stood at a seven-year high of 63.4% in February, tumbled to a 47-year low of 60.2% in April. The participation rate has bounced higher since April, but we expect it will take a few years for it to regain the level that prevailed prior to the pandemic. The imperative to social distance likely will keep participation among seniors depressed, and participation among prime-age women, who generally serve as primary caregivers for their families, also may be relatively slow to recover. Moreover, elevated rates of unemployment likely will keep some individuals on the sidelines of the labor market.

The upshot is that a depressed rate of labor force participation in the next year or two may weigh further on the potential economic growth rate of the United States, which already had downshifted since the beginning of the 21st century. That said, there are some longer-run factors, such as the trend rise in the participation rate among senior citizens and a resumption in participation among prime-age women, which should eventually bring overall labor force participation back toward its

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pre-COVID rate. Although potential economic growth of the U.S. economy likely will not approach the 3% per annum rate of 1990s anytime soon, growth in the productive capacity of the economy should pick up as labor force participation grinds higher, all else equal.