Midwest Workforce Strategies

Midwest Labor Force Participation Rate – Where is it headed?

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Labor Force Participation Rate (LFPR) is the fraction of individuals employed and actively looking for work from the pool of individuals who could work [1]. It is one of the most important Midwest workforce metrics after population growth since it also tells us the fraction of the population that could enter the workforce if the constraints keeping them out of the workforce changed or were addressed. We'll look at LFPR in several ways to understand where we might be headed.

The good news is that the Midwest has a very high LFPR. The bad news is that the Midwest has a very high LFPR.

First, the bad news. Since the LFPR is so high in the Midwest, it means there are fewer people not working who might be pulled into the labor force. With our slow increase in population, it is even more essential to understand the potential to pull these non-working individuals into the workforce. (See the Not-employed Workforce Elements.)

The good news is that Midwesterners want to work. Figure 1 displays the LFPR range, from worst to best, for Midwest states in each of two groups [2]. The states in the 'Northwest' Midwest have some of the highest levels of LFPR in the nation. This group includes Kansas, Iowa, Minnesota, Nebraska, North Dakota, South Dakota, and Wisconsin. States in the 'Southeast' Midwest have slightly lower LFPRs, roughly at the U.S. average. These states include Illinois, Indiana, Michigan, Missouri, and Ohio.

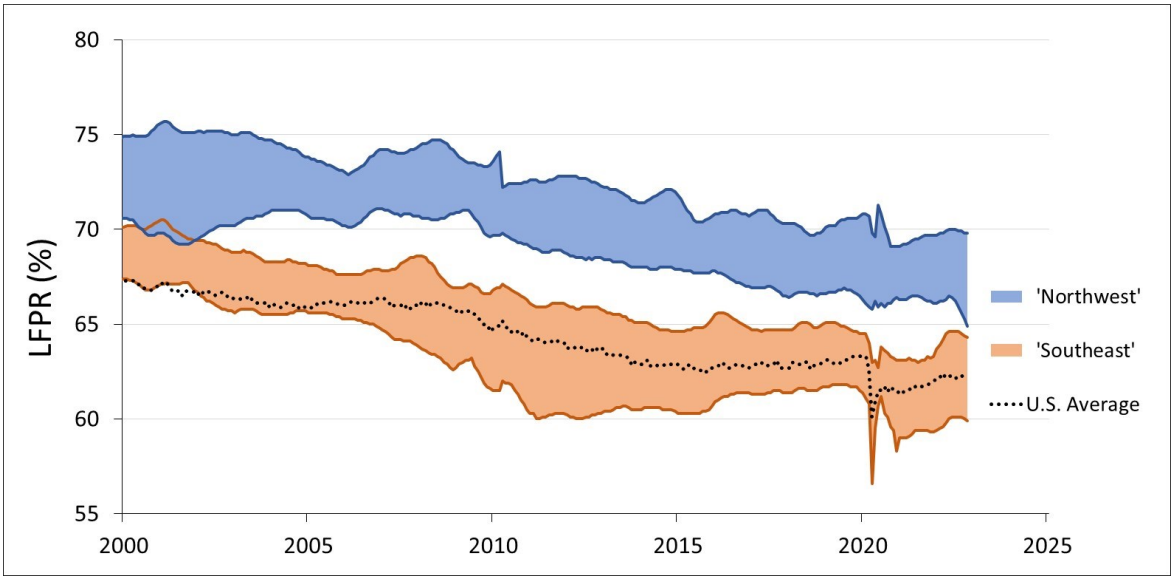

Figure 1: Labor force participation rate for Midwest states.

Overall, the Midwest LFPR has been trending down for two decades, similar to U.S. trends.

The U.S. LFPR for ages 16+ varies slightly by gender. The 2022 average LFPR for males is 1.2% below the 2019 average. The female LFPR is down 0.6% in the same period. The prime-age LFPR (25-54) for males has decreased by 0.6% in this timeframe, while the female prime-age LFPR has increased by 0.4%.

The U.S. LFPR varies by age group. In 2022, 37% of those 16-19 years old were in the labor force, 71% of those 20-24, 82% of those 25-54, and 39% of those 55 and older. Figure 2 displays how the U.S. LFPR changed for these age groups from before the 2020 recession until now [2]. Specifically, the change from the 2019 average to the 2022 average. The good news is that the prime-age LFPR is back to pre-recession levels. The greatest drop is in the 55 and older age group.

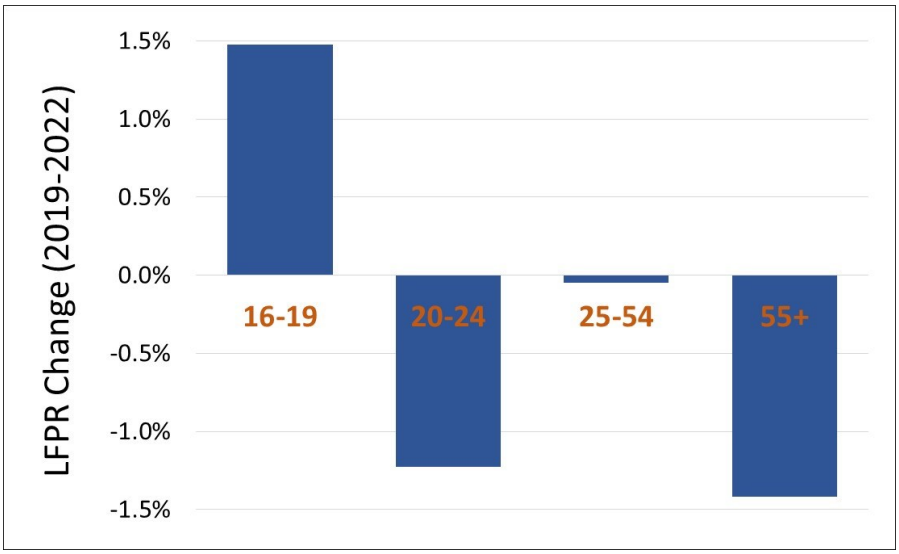

Figure 2: Change in labor force participation rate for different age groups (2019-2022).

Though the increase in the 16-19 LFPR is encouraging, it is important to point out that the LFPR for this age group is near the lowest level it has been at since 1950. Also, the number of individuals in this four-year window is very small compared to the number of individuals 20 and older. As such, the overall impact of the increase in the 16-19 LFPR on the total LFPR is small.

The 20-24 LFPR has been slowly declining since the mid-1980s, though there was a slight increase right before the pandemic. The 2019-2022 decline is not unexpected due to delays in schooling caused by the pandemic. An increase in the LFPR may be possible after the effects of the pandemic subside; however, given the number of individuals in this age window, the overall impact on the total LFPR would be small.

The prime-age LFPR has been declining since about 2000 until it started to increase around 2015. Could it now continue to increase? Possibly, but there are many reasons this has been on a slow decline. Reasons cited in the media and the literature include an increase in the number of individuals with a criminal record, an increase in individuals with a disability, increased drug addiction, individuals delaying marriage, lack of affordable child care, the decreasing fertility rate, individuals delaying when they have children, individuals assisting with elder care, Baby Boomer wealth transfer, increases in time-to-degree, low wages, early retirement, individuals seeking a work-life balance, more individuals seeking part-time work, and more.

Since so many factors have led to the slow decline in LFPR, it seems unlikely that a substantial increase in prime-age LFPR will occur soon.

The 55+ LFPR decline has been cited by many, especially recently with LFPR declines related to the pandemic. Figure 3 displays the LFPR for this age group since 2000 [2]. A clear break in the LFPR occurred in 2009, likely related to the start of the Great Recession. The continued flat-lining of the 55+ LFPR has been associated with the slow recovery from the recession and the early Baby Boomers (born in 1946) turning 65 in 2011. Given that the last Baby Boomers turn 65 in 2029, it's hard to imagine the 55+ LFPR will change significantly unless worsening economic conditions pull many retirees back into the labor force.

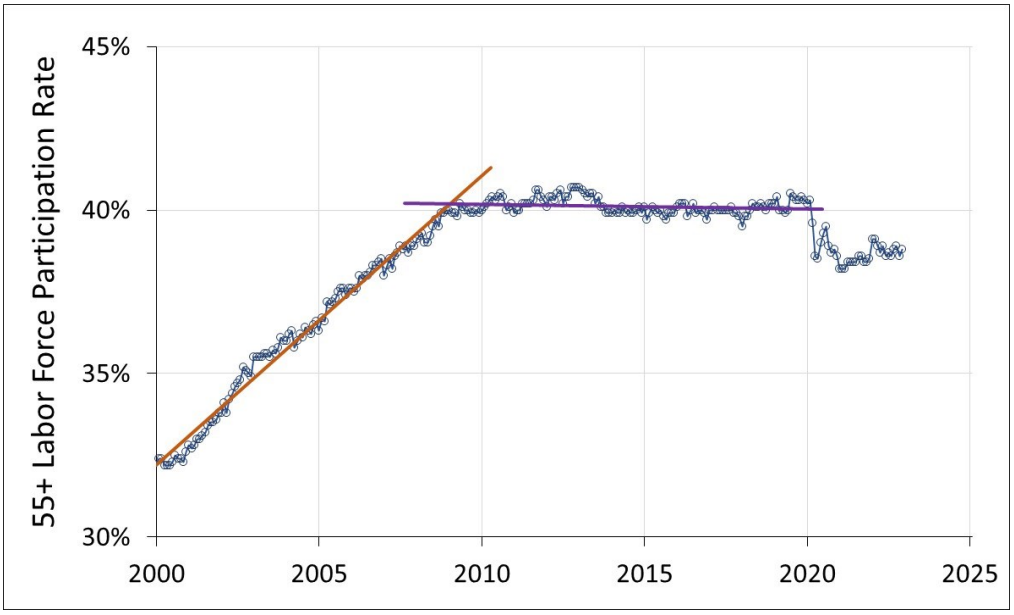

Figure 3: Labor force participation rate for individuals 55 and older.

The Bureau of Labor Statistics makes 10-year projections on various labor-related items. Reference 3 highlights recent LFPR projections for 2031. For every age group discussed above, the 2031 projections are lower than the 2021 LFPR levels. These projections are based on long-term trends and do not try to account for short-term fluctuations that could occur, like a recession.

Though these LFPR projections are not encouraging, positive changes are occurring for some workforce elements. Figure 4 displays the LFPR for individuals with a disability 16-64 years old. Since a low in 2014, there has been a notable increase in the fraction of individuals with a disability in the labor force [4].

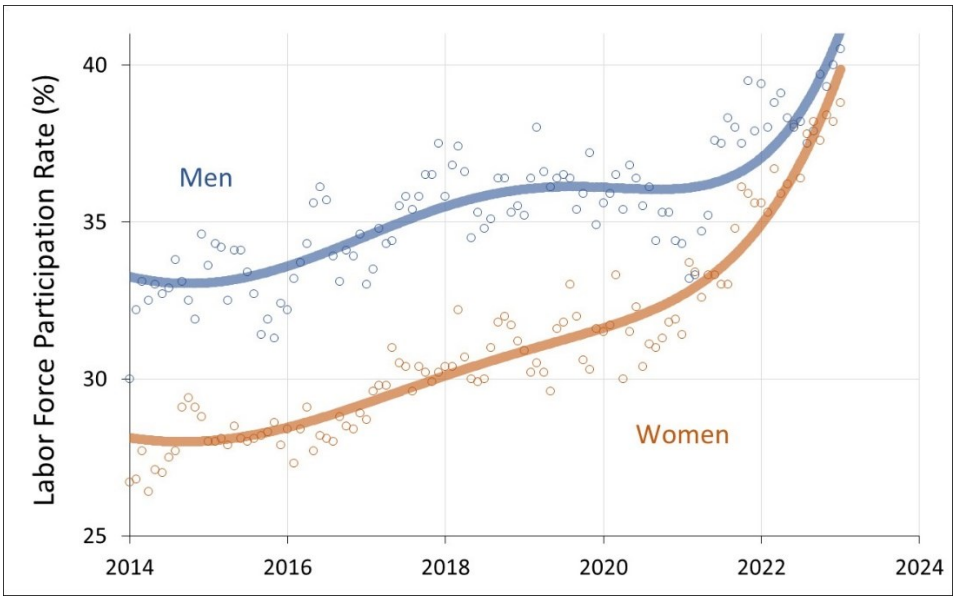

Figure 4: Labor force participation rate for individuals with a disability (16-64 years old).

When looking at the LFPR changes of the different age groups of individuals, it is hard to believe that any sizeable change in the labor force participation rate will occur over the next five years without some significant economic event like a recession, continued high inflation, or the like. Given population growth concerns in the Midwest, organizations will likely need to target recruitment to specific subgroups of individuals within and not in the labor force to find sufficient talent.

Additional Information

For further information, contact: Ron.Cox@MidwestWorkforce.com.

References/ Notes

[1] Those actively looking for work are the unemployed. The pool of individuals that could work is referred to as the civilian noninstitutional population. It excludes active-duty members of the military, those confined to correctional institutions, and those in residential care facilities.

[2] Data from www.bls.gov.

[3] See https://www.bls.gov/emp/tables/civilian-labor-force-participation-rate.htm.

[4] Data from www.bls.gov. Curve fit to data that is not seasonally adjusted.

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