

The Labor Force Participation Rate

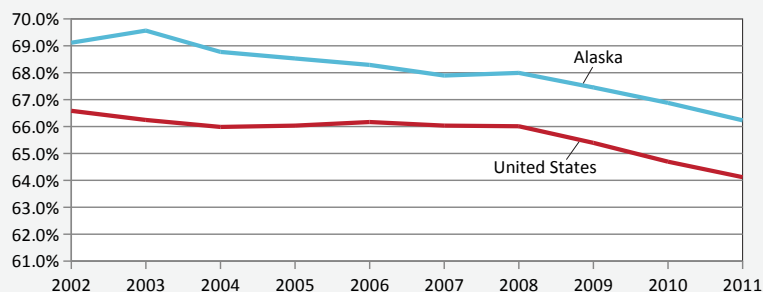
Aging population is a major part of recent declines

The labor force participation rate — essentially the percentage of the population 16 or older that’s either working or actively seeking work — has declined in both Alaska and the U.S. as a whole over the last decade. But labor force participation rates rise and fall for different reasons, and moves in either direction do not in themselves signal a strengthening or weakening economy.

If the rate declines because people give up on their job searches, often described as “discouraged workers,” that can signal a stagnant or weakening economy. However, if the rate falls because a large number of people retire, that’s not necessarily negative.

The big economic story for the nation over the last decade was the Great Recession, which officially began in December 2007 and ended in June 2009, although the U.S. has been slow to recover and has yet to regain a significant percentage of its lost jobs. By one measure, the U.S. labor force participation rate fell from 66.6 percent in 2002 to 64.1 percent in 2011, with most of the decline occurring after the recession hit. (See Exhibit 1.)

1 Alaska, U.S. Rates Both on Decline Labor force participation, 2002 to 2011



Note: This graph uses a different data set and scale than Exhibit 2. See the box at the bottom of this page for more on these sources.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and U.S. Department of Labor, Bureau of Labor Statistics Current Population Survey

Alaska was affected by the Great Recession, but it was largely insulated by its oil-based economy and the fact that its housing market did not bubble and burst. Yet by the same measure used for the U.S., Alaska’s rate fell from 69.1 percent to 66.2 percent, with the same accelerated decline from 2008 to 2011. This implies other factors besides the recession were at work in Alaska.

Looking in detail at the labor force participation rate and the factors that drive it can help us better understand unemployment and the current economic climate, and can also shed light on the future makeup of the state’s labor force.

About the two data sets this article uses

The Current Population Survey is a monthly survey conducted by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics. Its highest-profile use is as one of the main inputs for the monthly unemployment rate. Because the number of surveyed households is small — around 1,000 for Alaska — its use is limited for other purposes.

The other data set, the American Community Survey, is a U.S. Census product and the result of a larger, ongoing survey that replaces information formerly collected by the Census long form.

Cyclical vs. structural causes

Short-term economic changes during business cycles — the repeating ups and downs economies typically experience — are called “cyclical” factors. People tend to move in and out of the labor force as the economic climate changes.

During economic expansions, a greater demand for goods and services, the need for more work-

ers, and the resulting upward pressure on wages may entice those sitting on the sidelines to enter or re-enter the labor force. For example, a student contemplating graduate school may go straight into the work force instead if the job market is favorable, or a stay-at-home parent may re-enter the job market because the conditions are right and employers are especially hungry for workers.

The opposite is also true — during a recession, the drop in demand for goods and services often leads to layoffs. If the economic slump lasts long enough, some of the formerly employed job seekers may grow discouraged and drop out of the labor force.

But there are also longer-term dynamics, or “structural” factors, at work in an economy. Shifts in demographics, for instance, can affect labor force participation rates. Mismatches between workers’ skills and employers’ needs due to technological or other long-term changes can also have an effect.

One of the biggest structural factors at work in recent years is the aging of the nation’s baby boomers — the especially large group of the U.S. population born between 1946 and 1964. The leading edge of that group has recently begun to reach retirement age, which means an outsized group of people are beginning to retire or likely to retire in the near future.

Isolating demographic changes

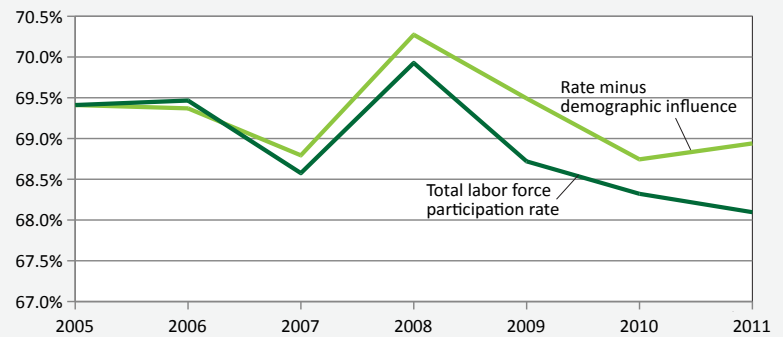
Separating demographic-driven changes in labor force participation rates from recession-related cyclical changes is important in assessing whether an economy may benefit from corrective action or whether a downturn in participation will simply run its natural course.

Methods for isolating the demographic component at the national level show demographic changes have been a major driver in U.S. participation rate declines. In Alaska, much of the decline in labor force participation rates also appears to have been structural, and more specifically connected to demographic trends.

ACS provides look at gender, age

The overall labor force participation rates for Alaska and the U.S. discussed earlier came from

2 Drop Largely Due to Demographics Alaska, 2005 to 2011



Note: This graph uses a different data set and scale than Exhibit 1. See the box on page 4 for more more the differences between these sources.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and U.S. Census Bureau, American Community Survey

3 Alaska’s Age Structure Shifts Percentage of population, 2005 to 2011

Age	2005	2006	2007	2008	2009	2010	2011
16-19	9.0%	9.1%	8.8%	8.3%	8.7%	7.4%	7.0%
Male	9.2%	9.2%	8.9%	8.6%	8.4%	7.2%	7.0%
Female	8.9%	9.0%	8.7%	8.0%	8.9%	7.6%	7.0%
20-24	9.6%	9.8%	11.2%	11.0%	10.9%	10.2%	10.6%
Male	10.0%	10.7%	12.5%	12.2%	11.6%	10.5%	11.4%
Female	9.1%	8.9%	9.7%	9.7%	10.1%	10.0%	9.8%
25-34	16.0%	18.3%	18.0%	18.8%	19.0%	19.0%	19.2%
Male	15.5%	18.5%	18.3%	19.0%	19.8%	19.5%	19.4%
Female	16.5%	18.2%	17.7%	18.6%	18.1%	18.4%	18.9%
35-44	20.6%	19.6%	18.5%	18.3%	17.0%	17.1%	16.8%
Male	20.5%	19.3%	18.1%	18.1%	16.6%	17.3%	16.5%
Female	20.7%	19.9%	18.9%	18.4%	17.5%	16.9%	17.2%
45-54	22.4%	21.3%	20.9%	20.0%	20.0%	20.5%	19.5%
Male	22.3%	21.1%	20.3%	19.2%	19.5%	20.1%	19.3%
Female	22.5%	21.4%	21.5%	20.8%	20.5%	21.0%	19.6%
55-64	13.5%	13.3%	13.8%	14.4%	14.8%	16.1%	16.4%
Male	14.2%	13.6%	13.9%	14.3%	15.1%	16.5%	16.6%
Female	12.8%	12.9%	13.6%	14.5%	14.4%	15.6%	16.2%
65+	8.8%	8.6%	8.9%	9.2%	9.7%	9.8%	10.5%
Male	8.3%	7.6%	8.1%	8.5%	8.9%	9.0%	9.9%
Female	9.4%	9.6%	9.9%	9.9%	10.5%	10.6%	11.2%

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and U.S. Census Bureau, American Community Survey

the Current Population Survey, the most authoritative source on U.S. and state labor force participation rates overall.

The analysis that isolated demographic factors in Alaska’s labor force participation rate declines used more detailed data from the American Community Survey, or ACS, a sample-based survey

4 Participation Rates by Age and Gender Alaska, 2005 to 2011

Age		2005	2006	2007	2008	2009	2010	2011
16-19		48.3%	52.0%	50.5%	51.4%	46.0%	44.4%	39.1%
	Male	45.2%	50.8%	45.7%	49.4%	45.7%	42.9%	37.4%
	Female	51.7%	53.4%	55.7%	53.8%	46.3%	45.9%	41.0%
20-24		75.4%	73.8%	69.8%	74.2%	71.1%	66.3%	71.8%
	Male	79.8%	72.2%	66.4%	73.5%	71.1%	62.1%	69.7%
	Female	70.3%	75.7%	74.5%	75.1%	71.2%	71.1%	74.5%
25-34		79.4%	76.5%	76.2%	77.6%	76.0%	75.3%	76.4%
	Male	86.2%	81.2%	80.3%	78.6%	79.3%	77.7%	77.0%
	Female	72.8%	71.5%	71.5%	76.5%	72.2%	72.5%	75.7%
35-44		81.3%	81.0%	81.1%	79.7%	79.2%	79.2%	82.1%
	Male	86.1%	83.9%	84.9%	82.0%	81.6%	85.1%	85.2%
	Female	76.3%	78.1%	77.0%	77.3%	76.9%	72.8%	78.9%
45-54		82.4%	81.9%	81.2%	82.3%	83.9%	83.1%	82.1%
	Male	88.6%	85.1%	83.7%	85.6%	87.6%	84.9%	86.6%
	Female	76.1%	78.5%	78.6%	78.9%	80.1%	81.3%	77.4%
55-64		62.4%	64.8%	64.9%	67.7%	67.6%	68.7%	66.8%
	Male	66.7%	70.0%	70.1%	70.0%	71.8%	74.4%	68.6%
	Female	57.6%	59.1%	59.0%	65.1%	62.9%	62.3%	64.9%
65+		16.6%	18.0%	20.0%	23.1%	24.0%	24.0%	22.3%
	Male	19.8%	19.8%	26.7%	28.7%	25.1%	28.8%	23.5%
	Female	13.6%	16.4%	14.0%	17.9%	22.9%	19.6%	21.1%
All		69.4%	69.5%	68.6%	69.9%	68.7%	68.3%	68.1%
	Male	74.0%	72.6%	71.3%	71.9%	71.6%	71.4%	69.9%
	Female	64.7%	66.2%	65.6%	67.7%	65.7%	65.0%	66.2%

Source: U.S. Census Bureau, American Community Survey 1-Year Estimates

put out by the U.S. Census Bureau. (See the box on page 4 for more detail.)

Both surveys show a declining participation rate, but there are variations between the two and to avoid confusion, it's important to recognize which is being used. All of the information on participation rates by age and gender that follow uses ACS as its source.

Though the state's rate fell by 1.3 percentage points from 2005 to 2011, the decline would have only been 0.5 percentage points if demographic changes were excluded. This means shifts in the state's age structure account for over 60 percent of the total decline in the rate from 2005 to 2011. (See Exhibit 2.)

Alaska's age structure shifts

The state's population has a growing concentration of those between 20 and 34 years old as well as those 55 and older. (See Exhibit 3.) Both of these groups have consistently lower participation rates than the age groups between 35 and 54. Members of the younger group are more likely

“Cyclical” changes: Temporary ups and downs in the economy due to business cycles and recessions

“Structural” changes: Long-term changes in the makeup of the labor force due to demographic shifts or mismatches between worker skills and employer requirements

to be in college or postsecondary training and are not yet part of the labor force. Those in the older groups are more likely to be ending their careers and leaving the labor force.

Removing the demographic influence shows Alaska's labor force participation rate actually increased from 2010 to 2011. At this stage of the analysis, the specifics of these changes and their reliability are less relevant than the concept that these demographic influences on the rates are important to acknowledge and track.

More older people in labor force

Although the overall labor force participation rate has been on a long-term decline, the ACS shows that not all age groups have followed that pattern. (See Exhibit 4.) Most notably, people in the 55-to-64 and 65-plus age groups were participating at higher rates in 2011 than they were in 2005. Rates among the 55-to-64 age group increased 4.4 percentage points, and rates were up 5.7 percentage points for those ages 65-plus. (See Exhibit 5.)

In contrast, younger generations' rates have fallen. Participation declined 3.0 percentage points among those between 25 and 34, and by 9.2 percentage points for those from 16 to 19. (See Exhibit 4.)

Though the specific causes of the increasing participation rates for older Alaskans and decreasing rates for the younger groups are unknown, the recession likely played a role for both. Even though Alaska weathered the recession better than most, retirement investments lost value everywhere, affecting decisions about when people could afford to retire. Some formerly retired people re-entered the labor market, possibly out of necessity — either because of a loss of retirement savings or the loss of a job by a spouse or someone else in the household.

At the other end of the spectrum, younger Alaskans just entering the labor market had more difficulty finding work and would also have been more likely to lose their jobs when employers cut back. People are also less likely to leave their jobs during economic downturns, which means fewer openings for young people.

Gap narrows between genders

While age has played a central role in labor force participation rates, participation rates among both genders have also changed notably.

Male participation rates dropped from 74.0 percent in 2005 to 69.9 percent in 2011. Over the same period, participation rates among women moved in the opposite direction, growing from 64.7 percent in 2005 to 66.2 percent in 2011. (See Exhibit 6.)

Though a higher percentage of men still participated in the labor force, the difference narrowed over that brief period, from 9.3 percentage points in 2005 to just a 3.7 percentage point gap in 2011.

The different trends for men and women become even more pronounced when looking at certain age groups. Male participation rates for those between 16 and 29 fell from 69.6 percent in 2005 to 63.7 percent in 2011. Female participation rates for that same age group grew slightly overall, from 65.5 percent to 65.9 percent, and peaked at 69.0 percent in 2007. Participation rates among women surpassed those for men for that age group in 2007 and remained higher over the 2008-to-2011 period.

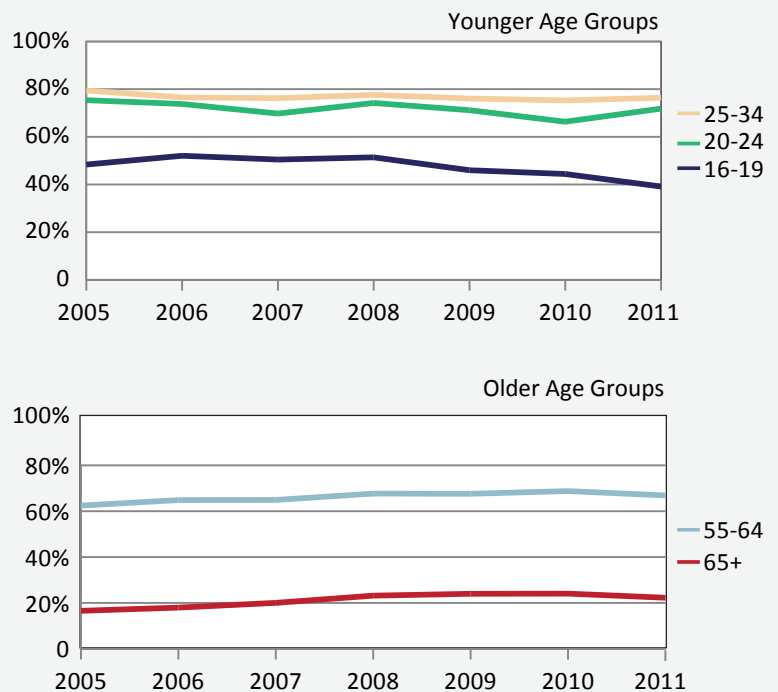
Recession hardest on young men

Though participation rates among men have fallen overall and part of the reason for that is the aging population, some data suggest the recession and related cyclical factors have been responsible for most of that decline.

Nationally, the recession was particularly hard on men — the most significant job losses were in industries such as construction and manufacturing, where a higher percentage of workers are male. Alaska's milder job losses were in some of those same industries — especially construction. However, female-dominated industries such as health care were barely touched by the recession.

5 Older, Younger Rates Diverge

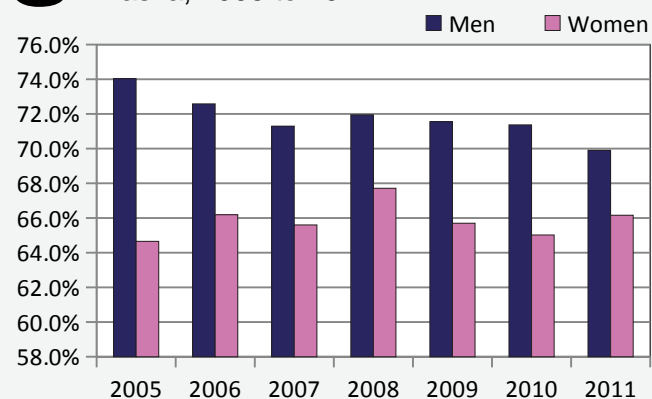
Alaska labor force participation rates, 2005-11



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and U.S. Census Bureau, American Community Survey

6 Participation by Gender

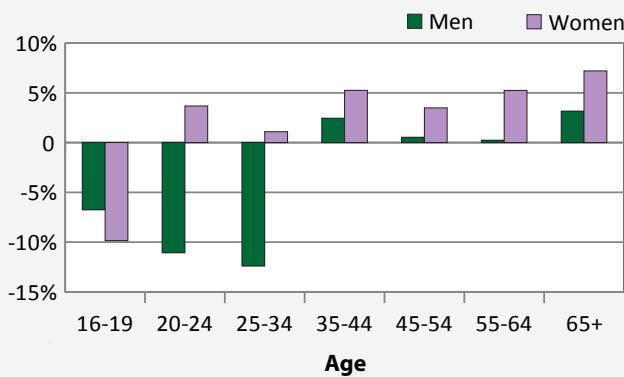
Alaska, 2005 to 2011



Source: U.S. Census Bureau, American Community Survey 1-Year Estimates

7 Young Men's Rates Fell Most

Alaska labor force participation, 2005-11



Source: U.S. Census Bureau, American Community Survey 1-Year Estimates

This means changes in labor force participation rates among women were mainly driven by other forces, including demographic changes.

Labor force participation grew for all men and women over the age of 35, and for all women over age 20. However, the recession was hardest on the young, and particularly young men. Male participation rates declined for all men 34 and younger. However, female participation declined only for the 16-to-19 age group. (See Exhibit 7.)

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