

## Labor Force Participation Rate

*A key ingredient for economic growth is labor force growth. With the unemployment rate extremely low and at levels rarely seen since the '50s and '60s, job growth becomes more difficult unless more people are added to the labor force. The labor force participation rate therefore takes on greater relevance in terms of the economic outlook and the pace of Fed tightening.*

The Labor Force Participation (LFP) rate is the percentage of the working age population in the labor force. The labor force is the total of those seeking work and counted as unemployed as well as all employed people, and the working age population is all individuals ages 16-64 excluding anyone institutionalized or actively serving in the military.

$$\text{LFP Rate} = \frac{\text{Labor Force}}{\text{Working Age Population}}$$

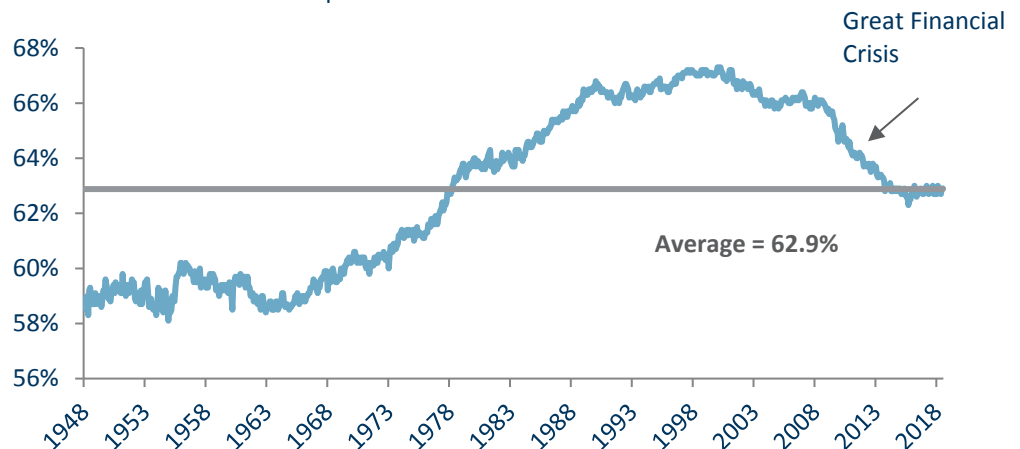
The LFP rate is an important economic indicator since it represents the amount of labor in the economy, which influences GDP. Measured and published monthly, the LFP rate has recently been hovering around 62.9%, or right around its long term average (see Exhibit 1). A decline following a recession is typical, but the more rapid decline following the Great Financial Crisis (GFC) of '08 was persistent and may finally be turning decisively.

### What's Causing the Steady Decline?

One of the biggest factors causing the LFP rate to drop is the aging of the population, specifically the baby boomers, according to the Atlanta Fed. This generation is getting older and leaving the labor force in waves, whether for retirement or to care for loved ones. This impact is expected to continue since the baby boomer generation still makes up 25% of the labor force.

Additionally, increases in disability claims commonly linked to the abuse of opioids have accounted for 20% of the decline, according to a recent study. Another study by Capital Economics shows

EXHIBIT 1: LFP rate since inception



Source: Atlanta and Boston Federal Reserve Bank

these claims have peaked and are decreasing, a good sign for the future of the LFP rate.

Another major source of the decline of the LFP rate is the reduced mobility of families. It is a major inconvenience to move for a job and this has resulted in some remaining unemployed or underemployed. Many factors are at play, including family ties such as shared custody, caring for aging parents, dual income families that don't want to move for one job, and skimpier relocation packages. The high cost of real estate and the fact that many homes were underwater following the GFC made it impossible for some to move, especially in rural counties. Even today, unemployment in rural counties is 4.3% higher than 2007 due to diminishing jobs in construction

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and manufacturing but also due to real estate values. In addition, job opportunities are often not a fit for the unemployed due to a growing skills gap as more and more jobs are skill-based, a phenomenon known as structural unemployment. Unskilled workers must learn new skills, but often they become discouraged and simply stop looking for work and therefore are no longer counted as part of the labor force. Those that do reenter often see fewer wage gains since they are less qualified, and this marginalized wage growth can influence others to remain unemployed.

### **Where is the LFP Rate Headed?**

Increased automation in the future may be a drag on the LFP rate unless there's a commensurate amount of jobs created from the growth in automation. A recent study estimates that by 2030, 25% of current jobs will be eliminated by automation. At first glance this looks to be calamitous for the economy, but the same study also estimates for every job eliminated there will be one created to produce the technology for automation as well as maintenance. Automation will likely affect less-skilled workers most acutely but will move up the line as technology progresses, leading to further job losses and displaced workers across a wider swath of the economy. Also, the population growth rate has declined from 1.1% in 2000-09 to 0.4% in 2010-18, a decrease of more than 50%. Couple that with a 12% decrease in permanent immigration visas since President Trump took office and the two result in fewer people entering the labor force, unlike the '70s when women entering the labor force accounted for its rapid growth. Also, there is a growing trend toward informal work which includes jobs like Uber drivers and other similar roles. A recent study found that if all informal workers were classified as employed, the LFP rate would increase more than two points. Combine these trends with the factors above and it does not seem probable the LFP rate will return to its peak of 67.3% during the late '90s tech boom, but it is unlikely it will pierce the record low of 58.1% in 1954 any time soon either.

*If these various trends play out as expected, the LFP rate will rise gradually but will not reach a new high. Still, this increase should allow economic growth to continue and could be a factor in limiting increases in pay for some workers, which will serve to limit the inflationary impact of being at full employment. All of this suggests bond yields have less room to rise since inflation is likely to remain range-bound and slow growth can continue.*

*Sources: Pew Research Center, Bain, The Balance, Alan Krueger, Washington Post, Atlanta and Boston Federal Reserve Bank, Capital Economics*

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