# In the News

*Here's what they say; here's what we see: Caroline Hild and Deborah Rozum interpret market indicator impact.*

This newsletter provides an insight into how market analytics and statistical interpretation is used to support or persuade. We take a news item and contribute an evidence-based perspective regarding the claim. This week, we look at the connection between labor force participation and unemployment rate and the impact of COVID-19.

### Relevant Sources

Jones, Terry. *"Labor Force Participation Rate Mystery: Why Have So Many Americans Stopped Working?"* Investor's Business Daily. Accessed March 3, 2020.
U.S. Bureau of Labor Statistics. Accessed May 19, 2020.

## Article Summary

Although the U.S. unemployment rate was at a 50-year historic low in early March, the labor force participation rate had been relatively low, with a 63.4% reading in January. Jones states that this reading suggests workers are permanently leaving the workforce, with males in their prime-working age (aged 25-54) accounting for the majority of departures. Possible reasons for this lack of participation range from retirement to men staying home to take care of children. Globalization, opioid addictions, skill gap between college and non-college

educated students, a "failing education system", are all reasons the author suggests led to the January participation rate reading. Of the working-age males who are inactive, 48.3% of those surveyed reported being either ill or disabled. The decline of 6.6 million potential workers (the number of able-bodied people that chose not to work between 2000 and 2019) equates to an approximate $400 billion loss in the economy. The participation rate for men aged 25-54 has steadily been declining since the 1950s; however, women aged 25-54 experienced a significant increase, nearly doubling their participation rate in 70 years. Despite this increase, the large decrease in the participation of men aged 55 and older has offset women's contribution to the labor force.

## What the Evidence Shows

### Pre COVID-19

**Graph 1: Labor Force Rates from 2000-Present\***
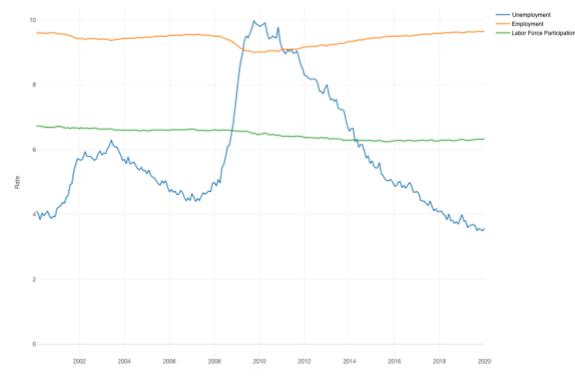


*\*Employment scaled for comparison*

A common misconception is that the labor force participation rate and unemployment rate share an inverse relationship; however, as Graph 1 shows, this does not hold true. This is likely due to the difference in information received from the two indicators. The labor force participation rate measures the percentage of workers in the labor force (i.e. both employed and unemployed workers), while the unemployment rate measures the percentage of unemployed workers within the labor force. Analyzing these two factors alone is insufficient to truly understand the labor market's behavior.

**Graph 2: Change in the Number of Workers from 2000-Present**
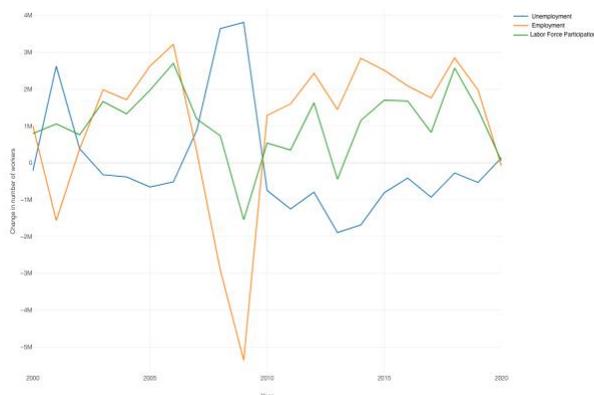


Using ARCSys data, Graph 2 shows the annual change in the number of workers with respect to national unemployment, employment, and the labor force. An inverse relationship between unemployment and employment can be observed, with workers migrating from one category to the other. The change in the labor force shows the number of workers that have either entered or left the workforce. As the evidence shows, the change in the number of workers in the labor force has only been negative (i.e. more workers exiting than entering) twice on an annual basis: in 2009 and 2013. In all other years, annual aggregation indicated that more workers actually entered the workforce than left.

## Post COVID-19

The COVID-19 pandemic has increased unemployment across all industries and all age groups. The national unemployment rate was at 3.8% in February 2020, rising to 4.5% in March as the first wave of lay offs hit, before jumping to 14.4% in April. As restaurants and non-essential businesses were ordered to close, the leisure and hospitality industry was severely affected, as seen in Chart 1. Nearly 5 million have become unemployed, bringing the industry's unemployment rate to 39.3% in April 2020 compared with 4.5% in April 2019. The retail and trade industry as well as the education and health services industry have both been heavily impacted with unemployment rising to 3.2 million and 2.6 million respectively. These three industries alone account for nearly a third of total unemployment across the country.

**Chart 1: January-April 2020 Unemployment Rate by Industry**
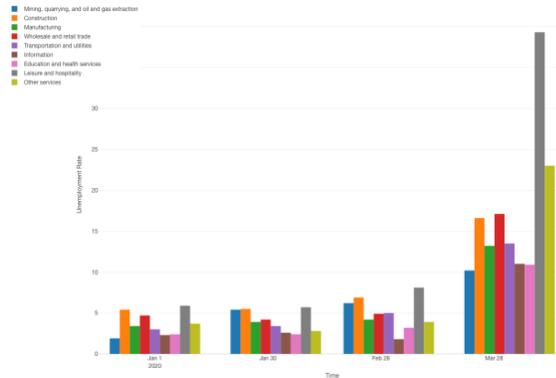


As shown in Table 1 below, the 16-24 age group's participation and unemployment rates were the most severely impacted amongst all age groups. This is likely due to 31% of all workers in this age group being employed in the leisure and hospitality, and wholesale and retail trade industries.

**Table 1: Unemployment and Participation Rates by Age Group**

| | Participation Rate | | Unemployment Rate | |
|---|---|---|---|---|
| Age group | 04/2019 | 04/2020 | 04/2019 | 04/2020 |
| 16-24 | 55.3% | 49.6% | 8.3% | 27.4% |
| 25-34 | 82.6% | 79.5% | 3.8% | 14.5% |
| 35-44 | 82.8% | 81.2% | 2.7% | 11.5% |
| 45-54 | 81.3% | 79.1% | 2.5% | 12.3% |
| 55+ | 39.9% | 38.6% | 2.6% | 13.6% |

Participation rates across all age groups decreased, as workers left the labor force and are not currently seeking employment, likely discouraged in part by the lack of current job availability. Although a decreasing trend was observed prior to 2016 with some stabilization in the past four years, the pandemic led to a 3% drop in two months. The BLS had projected the participation rate to reach 61.2% by 2028 prior to COVID-19; however, the current reading will likely affect future projections.

**Graph 3: Labor Force Participation Rate***



*Source: U.S. Bureau of Labor Statistics, May 18, 2020.*

## Takeaways

Prior to the viral outbreak, the unemployment rate had been at a 50-year historic low with a relatively low labor force participation rate, before both faced shocks. Understanding the driving forces that affect economic indicators and their relationships will greatly help with your CECL economic forecast, allowing for more robust allowances and less volatility. It is important to analyze the components that affect the participation rate such as increases in child daycare costs, student loan debt, skill gap, or disability benefit claims and how these are likely to change when preparing your economic forecast. This will allow for a more robust forecast than forecasting solely with historical observations.