

Declining Labor Force is a New Concern

By Eric Grosso; January 14, 2010

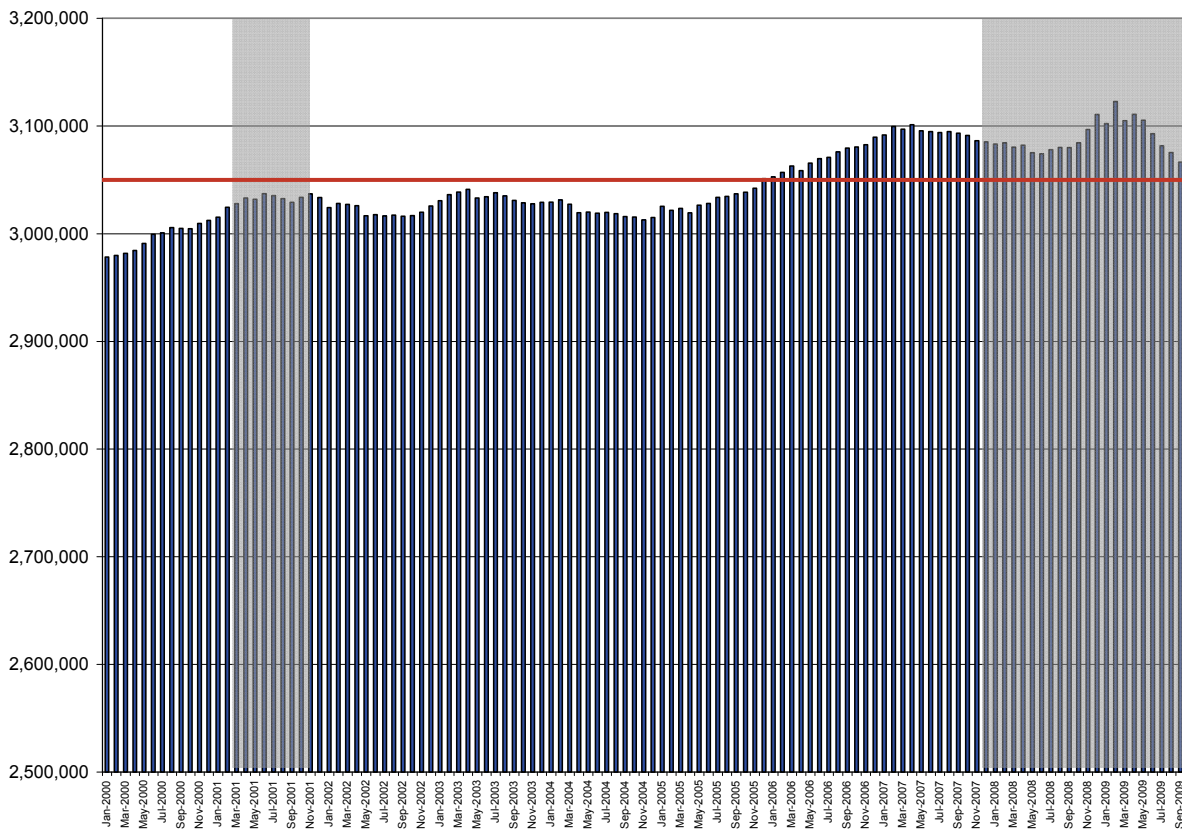
While the highest unemployment rates in a generation receive our undivided attention, another concern is now becoming apparent — a receding labor force. This observation is arguably as significant as the high unemployment rates, but is flying under the radar as recovery is the new 'r' word increasingly replacing 'recession'.

So why the concern about changes in labor force? Examining month-to-month labor force changes, especially these days not only allows us to measure how the employed have been affected, but also helps us to superficially gauge the overarching perception of successful job

more indicative of rising numbers of discouraged job seekers putting their job searches on hiatus, rather than them having successful employment outcomes. By definition, people are considered unemployed if they are jobless and have been actively seeking work within the past 30 days. If they have not been seeking work for a period longer than 30 days then they are no longer counted among the unemployed, and thus are not counted in the labor force.

The graph below outlines the state's monthly, seasonally adjusted labor force from January 2000 to October 2009 with

Wisconsin Monthly Labor Force - January 2000 to Current



Source: U.S. Bureau of Labor Statistics, LAUS, seasonally adjusted series

seeking of the unemployed.

The recent moderation in many states' unemployment rates, including Wisconsin's, over the latter half of 2009 is

the gray shading indicating recessionary periods. There is no doubt that Wisconsin was more resilient than the nation in the beginning of the recession (declared as of December 2007) in terms of its labor

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market performance. 2008 was no wonderful example of economic buoyancy either, but in hindsight it was healthy compared to 2009. A case in point, the state's 4.8% annual average unemployment rate in 2008 was unchanged compared to both 2006 and 2007 and was even one-tenth of a point lower than the 2005 annual mark. Conversely, the nation's rate jumped from 4.6% in 2007 to 5.6% in 2008.

But even the labor force in 2008 began to show some signals that the economy was slowing despite a lower annual unemployment rate. The graph does show some slight labor force reduction in the months of 2008, but the reduction seemed to have been somewhat equal between the employed and unemployed, therefore not greatly influencing unemployment rates. In other words, there was no clear signal of discouragement at that time.

Ultimately, as the state's job base eroded in fall 2008, the employed who lost jobs became immediately unemployed, therefore measuring no immediate net change in total labor force, generally speaking. But by December 2008 and through the first quarter of 2009, the state's labor force began to rapidly increase despite job losses. Speculatively, this is because in addition to the recently jobless workers, others such as recent retirees, non-working spouses and other non-working household members were likely entering or re-entering the workforce as unemployed job seekers. These additional job seekers may have been trying to recoup asset wealth that vanished in the market crash or to supplement the lost or diminished earnings of a newly unemployed or underemployed household member. This phenomenon was partially responsible for the precipitous increase in unemployment rates in early 2009. In sum, the rise in rates was not caused by one those losing jobs, but also by those

who lost confidence in their household's economic well being.

Noteworthy is the fact that because of this re-entry phenomenon, Wisconsin measured its highest recorded level of labor force, ever, in February 2009. But since February, Wisconsin's labor force has approximately 75,000 fewer participants. Using the red, horizontal line as a guide on the graph, one will notice that today's labor force is at a level last seen in late 2005, which is commensurate with job loss.

Most of the recent decline in the labor force is due to the decrease in employed. Since February in Wisconsin, only one month has measured an increase in the number of employed (April) and since June the number of unemployed has fallen very rapidly with no corresponding increase in the number of employed—likely spelling discouragement over the lack of job prospects, and so, labor force withdrawal. Again, this is not unique to Wisconsin. Even a recent monthly reduction in the nation's unemployment rate could be characterized as an increase in the discouraged jobless dropping off of the labor force tallies.

On a positive note, unemployment rates were no longer rapidly rising in the latter months of 2009 like they were in the first half of the year. Wisconsin did not reach the unemployment rate highs that the nation did. But going forward as we speak more about recovery rather than recession, it may not be horrible news to hear about some uptick in unemployment rates. Just as the recent rate declines signal discouragement, higher numbers of unemployed in the near future, hopefully coupled with rising job numbers, may signal that some of those discouraged job seekers are feeling better about prospects and thus actively seeking work and causing a rise in the unemployment rate.