**AN ANALYSIS OF THE U.S. LABOR MARKET**

The labor market of a country has always been a relevant factor when it comes to understanding the health of an economy, and the first indicator that comes to mind when talking about it is the unemployment rate.

The U.S. experienced a strong decrease in the unemployment rate (reaching 3.5% as of December 2022) despite the concerns of an imminent recession. In general, low unemployment rates are associated with a strong economy since the demand for labor is matched by the supply, however, this belief is not always correct.

**Unemployment rate**

There are several unemployment rates, however the one we usually hear talking about is the U-3, and it indicates the number of working age people (above 16 years old) who are without work **and** have actively tried in the past four weeks to get one, leaving out all those people that, for various reasons, have given up looking for a job.

According to this definition, in an economy with 10 people where only one of these is employed, the unemployment rate **could be** 0% if assuming the other 9 were not looking for a job.

**Participation rate**

Another important indicator is the participation rate, which indicates the part of the population working or that is willing to work relative to the overall working age population (considering also those people that have given up looking for a job).

As of December 2022, the US participation rate is 62.30% (it has been decreasing for the past 20/30 years although it recovered a few points after the pandemic).

There are several possible reasons for a low participation rate, from unemployment benefits to a reduced interest in lower paid activities, from faster aging population to slower population growth.

**Why the comparison of these two indicators is important?**

Looking at both these indicators can give a more solid insight on the actual status of the US labor market.

After working with some data from the FRED API (Federal Reserve Economic Data),

Diagram

Description automatically generatedI was able to plot on a graph the participation and unemployment rates for each state.

As we can see, certain states such as Massachusetts or Texas have a high participation rate (red) and a low unemployment rate (blue) which indicates a strong job market. Other states such as West Virginia, South Carolina, Alabama, New York, Mississippi… have a low unemployment rate but also a relatively low participation rate.

It's interesting to note that of the 10 states with the highest percentage of 65+ population, 8 of them are below the national average participation rate.

[https://www.prb.org/resources/which-us-states-are-the-oldest/]

We understand that one of the reasons that makes the US unemployment rate so low is the aging of the American population since a greater number of people leave the work force, and this is not a signal of strong labor market…

Moreover, this gap can be attributed also to a strong mismatch between the competencies the labor market is demanding and those that unemployed people can offer. This mismatch creates many discouraged workers that leave the workforce decreasing the unemployment rate but also the participation rate.

After this brief analysis, it is reasonable to have doubts about the real condition of the US labor market; it is true that the unemployment rate is an indicator of the strength of an economy (hence a lower likelihood of a recession), but after considering other factors, we cannot be sure about it.