

## RECENT TRENDS IN THE LABOR FORCE: PART 1 –THE AGING WORKFORCE

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*A country's labor force is the lifeblood of its economy. As such, the labor force participation rate (LFPR), which measures the number of people available to work as a percentage of the total population, is a key indicator of the country's economic health. It paints a picture of economic conditions and shifting social norms, while influencing unemployment rates, projected economic growth, and government policy.*

*Over the last 20 years, a steep decline in LFPR around the globe has become a major cause for concern. Birth rates have dropped and populations are seeing a greater increase in their aging population. Countries like Japan are employing the overwhelming majority of their aging workers in jobs with menial tasks to help offset their labor shortage. The US has also seen a sharp decline in LFPR since the financial crisis of 2007. This series will focus on the demographic factors of the US population that have the most notable impact on the labor force participation rate.*

"Demographics are destiny" is a concept that rings true now as a headwind to economic growth, just as it did decades ago as a tailwind. With population growth and labor force participation on a decelerating trend, and productivity growth on a prolonged leave of absence, growth prospects have followed suit. The matter of productivity growth is a rather complex subject that [we have explored before](#). Demographics, however, and their potential impact on the labor force, are relatively straightforward and may be more reliably handicapped.

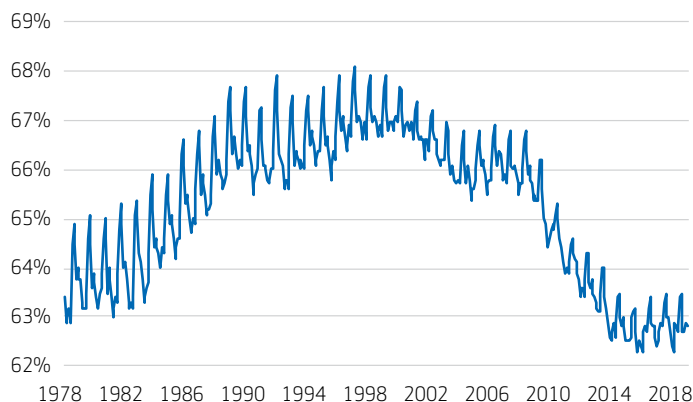
### LFPR

*Labor Force (16 years +) / Civilian  
Non-Institutionalized Population (16 years +)*

### The waning US workforce

The weakening trend in the US labor force participation rate began in the late 1990s and has worsened since the financial crisis (Exhibit 1).<sup>1</sup> Between December 2007 and December 2018, the US civilian population aged 16 or older grew by 25.7 million, only 34% (or 8.8 million) of which entered the labor force.<sup>1</sup> As such, labor force participation fell by over 3% during the same time period—a much larger drop than the decline observed from its July 1997 peak to December 2007.

Exhibit 1: LFPR: 16 years of age + (NSA, %)



Source: BLS, Havers, and Aegon AM US Macro Strategy. As of 12/31/2018.

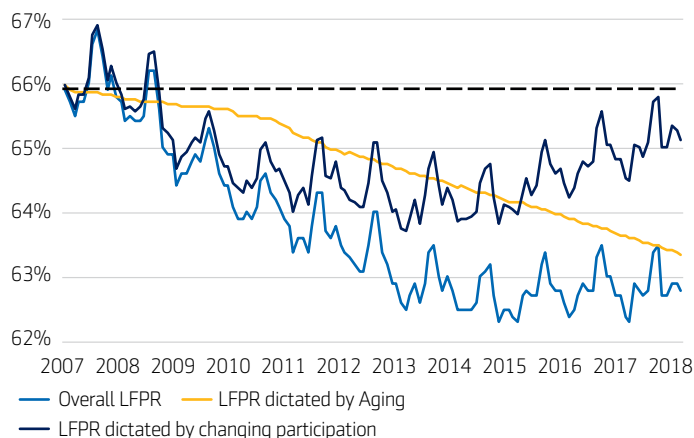
<sup>1</sup>Note that we limited the data to December 2018 to exclude unresolved irregularities from the partial government shutdown, and use non-seasonally adjusted numbers for a more detailed dataset.

There are many factors responsible for the precipitous decline of the labor force participation rate: The severity of the financial crisis (potentially leading to hysteresis) and the opioid epidemic are noteworthy contemporaneous phenomena that may have partly influenced this trend post-crisis. However, another impetus to consider is the fact that the single largest age group at the time, the oldest of the baby boomers, turned 65 shortly after the crisis (using 1945 as the starting birth year for the cohort). With a sharply lower participation rate for the workforce aged 65 and over (less than 20%)—and as those who now command a larger share of the workforce—it is reasonable to assume that the compositional shift alone has had an impact on the aggregate participation rate.

### An aging trend in the US

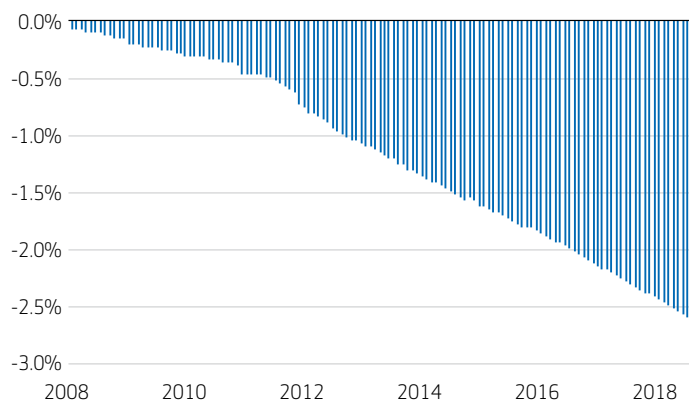
In order to determine the approximate effect that baby boomers aging out of the conventional workforce has had on the participation rate, we split the workforce into two groups: those aged 16 to 64, and those aged 65 and older, and froze the participation rate for each age group to its December 2007 level while allowing each group's proportion to the overall labor force to fluctuate. To isolate the effect of the changing participation rates within the age groups on the overall participation rate, independent of demographic changes, we allow group participation rates to fluctuate and freeze compositional shifts.

Exhibit 2: Aging accounts for the lion's share of the decline in LFPR



Source: BLS, Havers, and Aegon AM US Macro Strategy. As of 12/31/2018.

Exhibit 3: The cumulative impact of aging on total LFPR



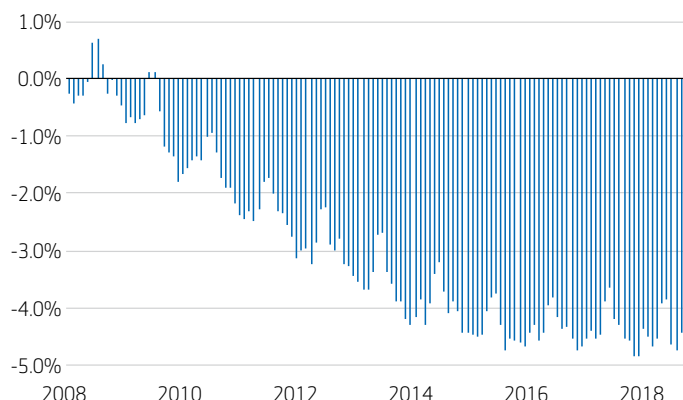
Source: BLS, Havers, and Aegon AM US Macro Strategy. As of 12/31/2018.

Exhibits 2 and 3 suggest that boomers aging out of the 16-64 pool drove over half of the drop in the aggregate participation rate post-crisis, as the compositional shifts alone would have reduced the participation to roughly 63.3%, a stone's throw from the December 2018 level of 62.8%. The data also suggests an aging-imposed structural ceiling in the participation rate that would constrain cyclical gains in the labor force, as aging is a trend that is projected to continue in the US. Exhibit 3 displays the cumulative impact of aging on the participation rate, the slope of which steepened post 2010, consistent with baby boomers hitting retirement age during that year and beyond.

While the participation rate of those aged 65 and over has increased by about 300 basis points since the crisis, given its low absolute level this change has not been enough to offset the compositional shifts for the workforce aged 16 to 64 as baby boomers exited the group. In addition, participation rates for the 16-64 age group have declined since the crisis, which put downward pressure on the aggregate participation rate. The recent trend in the latter group's participation rate may be indicative of the aforementioned severity of the recession or the drug epidemic.

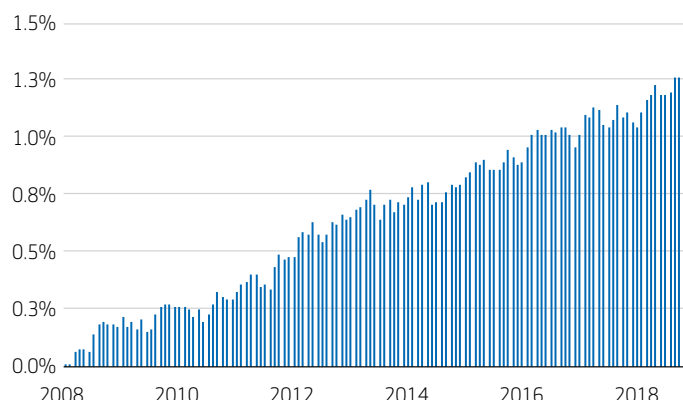
Combining the effects of compositional shifts (aging) and the varying participation rates of each age group provides a broad picture of each age cohort's overall impact on the aggregate participation rate. As can be observed in Exhibit 4 and 5, those aged 65 and over have had a positive impact on the broad participation rate, with the drag solely coming from the 16 to 64 cohort as that group's share of the workforce and participation rate both shrank since the financial crisis.

Exhibit 4: Cumulative impact of aged 16 to 64 on total LFPR



Source: BLS, Havers, and Aegon AM US Macro Strategy. As of 12/31/2018.

Exhibit 5: Cumulative impact of aged 65 and over on total LFPR



Source: BLS, Havers, and Aegon AM US Macro Strategy. As of 12/31/2018.

Shrinking participation in the core age cohorts of the US workforce have driven long-term economic growth concerns. According to the CDC, the birth rate has declined consistently (with the exception of an increase in 2014) since the financial crisis. This decline is a typical characteristic of recessions. However, the birth rate did not rebound as is expected during times of economic growth.<sup>2</sup> We believe the labor force participation rate will be pressured lower as age demographics exert their influence on the US economy long-term. However, we expect this to be temporarily offset slightly by cyclical strength in the economy and the labor market.

***Look for the next installment in this series that will focus on gender as a demographic factor in the trend in labor force participation.***

<sup>2</sup>Latest available data as of 2017.

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