WHERE CAN THE PARTICIPATION RATE GO FROM HERE?

After a long stretch of declines since the Great Recession, labor force participation has risen in recent months.

NE flow rate for prime-age population

One development in the labor market this past year is an increase in the share of prime-age workers (25-54 years old) flowing back into workforce, called the NE flow rate. This is good news for the labor market because, all else equal, it drives up the labor force participation rate. The growth in prime-age workers in the labor force, however, is limited to people with higher educational attainment—two to four years of college or more. The growth rate of prime-aged workers with a high school education or less during the same period remained stable.

Key finding

Although the scenarios showed that more prime-age workers could enter the labor force in the coming years, the cyclical improvement in the overall labor participation rate may be limited to only those workers with higher educational attainment. The potential increase in participation, the economists say, could be constrained by other influences, such as an increase in the prime-age population that reports they are either retired or disabled and a limited pool of people who say they want a job but haven't looked for one recently. Given these issues, although a higher NE flow indicates the prime-age participation rate could increase further, its contribution to the overall participation rate may be modest.

Further Resources

"Flowing into Employment: Implications for the Participation Rate" by José Mustre-del-Río, Michael Redmond and William Xu