

PERSONALLY SPEAKING

Special Issue

September 10, 2013

LABOR FORCE DYNAMICS AND THE GREAT RECESSION

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The monthly jobs reports from the Bureau of Labor Statistics often elicit the comment that even though the jobless rate has ticked downward – most recently from 7.4 percent to 7.3 percent -- conditions in the labor market actually are not improved for two reasons. First, job growth especially for full-time work has been anemic; most growth has taken place among part-time workers. Second, large numbers of persons are leaving the labor force which has the effect of drawing down the rate of unemployment.

The year-over-year numbers on job growth do not provide strong support for the first argument. The number of persons working full-time has increased by 1.7 million since August 2012. Over the same period, the number in part-time jobs has climbed by 288 thousand.

As to the subordinate argument that many are settling for two part time jobs to make ends meet, the numbers (not seasonally adjusted) are not convincing. In August there were 1.8 million multiple jobholders working at part-time jobs. One year earlier there were 1.7 million in that classification. Most multiple jobholders – roughly 3.7 million -- have a full-time primary job plus a secondary one that is part-time.

The numbers on persons leaving the labor force seem to provide more substance to the second argument. In August the number of persons not in the labor force grew by 516 thousand. Of that number 115 thousand came from the ranks of the employed and another 198 thousand from the pool of the unemployed. The rest of the increase – 198 thousand – probably came from young persons reaching age 16 for the first time and therefore being included in the survey numbers for the first time.

These numbers show change in *static* terms that grossly understate the *dynamics* of the American labor force. Other data from the same monthly household survey indicate that a

total of 6.7 million persons who were either employed or unemployed in July were not in the labor force (NILF) in August plus 6.3 million persons who were NILF in July were either employed or unemployed in the following month. Thus in round numbers 13 million changed labor force status between July and August. Women account for roughly two-thirds of the monthly dynamics.

If anything at all, these dynamic data indicate that over the year fewer persons actually changed from unemployed to NILF. Specifically, there were 275 thousand *fewer* jobless persons in July who were counted as NILF in August than one year earlier. Unfortunately, the BLS publishes very little additional information about these dynamic flows that would allow us to look deeper into the demographics.

Looking again at the static numbers and disaggregating them provide new insights as to the significance of the much reported increase of 516 thousand classified in August as NILF. In April and May 2013 the number classified as not in the labor force actually declined and in June was unchanged. In August 2007, well before the onset of the Great Recession, NILF increased by 557 thousand. Clearly, at that time it was not possible to attribute the increase to problems relating to anemic job growth.

The August 2013 increase in NILF (not seasonally adjusted), and possibly in other months, seems attributable to family demographics. Among married women, NILF in August fell by 85 thousand while for never-married women it climbed by 805 thousand. Among married men, NILF increased by 142 thousand; for never-married men it increased by 774 thousand.

In *every* year since 1976 when these data first became publicly available the August NILF numbers for never-married women increased by several hundred thousand. The same has happened every September since 1976 but in every June over that period the number NILF has fallen. No exceptions.

Among never-married men the story is similar. NILF has risen every August since 1976. In contrast, the number of never-married men classified as NIFL has fallen every June. No exceptions.

Returning to two arguments regarding conditions in the labor market we started with, there is no evidence in the household survey to support the argument that over the year employers are turning more and more to part-time workers. Quite to the contrary for every increase of one person employed in a part-time job there has been an increase of nearly 7 in the number working full time.

The evidence regarding the impact on the jobless rate from large numbers of persons dropping out of the labor force is not nearly as conclusive. First, according to the BLS household survey data that measure labor force dynamics, there are very large numbers of persons entering and leaving the work force from month to month. Even taking into account the problem of standard errors deriving from the samples used in the household survey, of late the numbers of persons unemployed in one month who in the following month are NILF are *smaller* than the number NILF in one month who are employed in the next month by roughly 1 million.

Second, there are large month-to-month swings in NILF for never-married men coupled with similar large swings for never-married women. And in the summer, those swings are in the same direction for both. No exceptions.

Why this consistent pattern over the last five business cycles? Is this simply a matter of using data that are not seasonally adjusted? Or is it a much deeper problem of labor force dynamics?

The BLS should find out and publish more as to why this has been happening since 1976 if we are to better understand the impact of labor force entry/withdrawal on the jobless rate. Perhaps this additional information will tell us why the jobless rate for persons who are married with spouse present is so much lower than all other persons. The 4.3 percent rate in August for all married persons means that they have survived the Great Recession. The 10.6 rate for everyone else including the never-married means that they are still dealing with the grim realities of the Great Recession.

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