

## Economics Group

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## Full Employment in a Low-Participation World

*An aging workforce has taken a toll on labor force participation, while long-term challenges to prime-age participation suggest full employment and low workforce engagement may not be at odds.*

### Demographics and Then Some

One of the most common critiques of the unemployment rate as a gauge for full employment this expansion is that it does not capture the significant decline in labor force participation. Since the onset of the Great Recession, the labor force participation rate has fallen an unprecedented 3.1 percentage points, as fewer workers searched for employment.

No doubt demographics have played a significant role in the decline. Three quarters of the Baby Boomer generation are over the age of 55, the age at which labor force participation begins to fall sharply. Yet a little less than half the drop in the participation rate (1.4 points) can be traced to the aging population.

### The Prime Problem

A darker cloud hanging over the unemployment rate as it nears “full employment” has been the drop in participation rates among prime-age workers (ages 25-54). Too old for most to still be in school and too young to be retired, the withdrawal of prime-age workers from the labor force represents a significant source of untapped potential for the economy.

The prime participation rate remains 1.7 percentage points below its 2007 level as both weaker demand and supply conditions have kept workers on the sidelines. The share of non-participants ages 25-54 who report wanting a job, at 25.4 percent, remains above the previous cycle peak. Nearly one in four of these workers report not looking for a job because it is either not available or could not be found—an improvement from one in three back in 2010 but still above the rates that prevailed in the early and mid-2000s. On the supply side, childcare, other family responsibilities and poor health have prevented a growing share of potential workers from looking for a job.

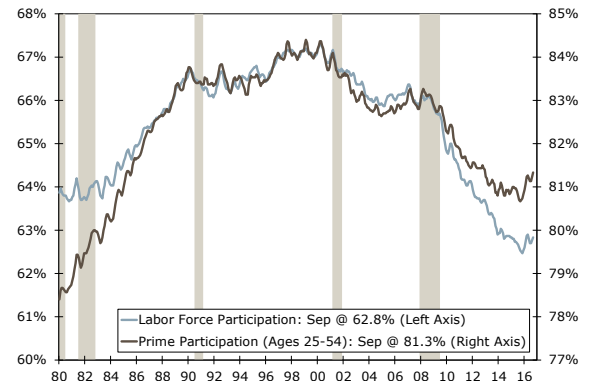
### Hard Realities for a Participation Rebound

Over the past year, the labor force participation rate has rebounded slightly, driven primarily by an increase in prime-age workers. We remain hesitant, however, to believe that the participation rate will return to the levels that prevailed in prior periods. The prime participation rate peaked in the late 1990s as the decades-long rise in female participation came to an end. The participation rate for prime age men, on the other hand, has been declining since the mid-1950s as structural headwinds, such as erosion of real earnings for low and middle-skilled jobs, have kept more workers on the sidelines.

Despite participation remaining near multi-decade lows, the employment situation for prime-age workers has certainly improved, with the employment-population ratio rising to new cycle highs. However, with limited scope for a rise in the participation rate, full employment may be closer than often perceived despite low levels of workforce engagement.

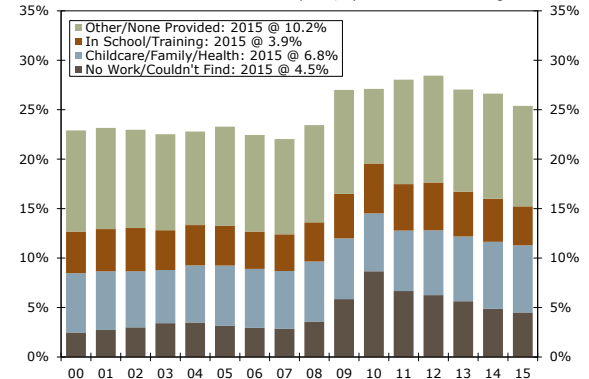
Labor Force Participation Rate

Prime vs. Total, Seasonally Adjusted 3-MMA



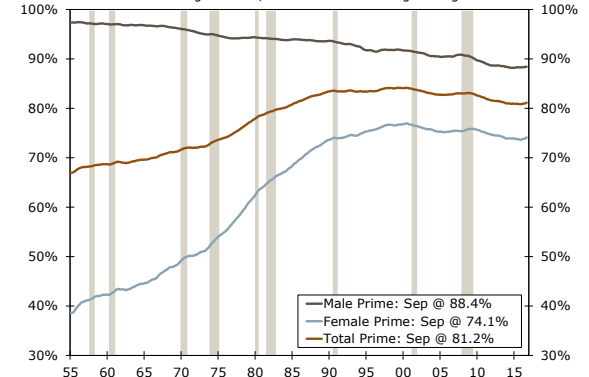
Not in Labor Force but Want A Job: Ages 25-54

Share of Non-Labor Force Participants, by Reason Not Searching



Prime Labor Force Participation

Workers Ages 25-54, NSA 12-Month Moving Average



# Wells Fargo Securities Economics Group

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