An Untapped Resource

The U.S. unemployment rate has receded from its 2009 high of 10.0% to 4.4% or roughly seven million people. People who have left the labor force altogether actually outnumber those whom the Bureau of Labor Statistics considers unemployed. As a result, the labor market may not be as tight as it appears and the country may have an untapped resource at its fingertips.

- The U.S. labor force participation rate is the percentage of the population aged 16 years and over that is either working or actively seeking work, i.e., counted as employed or unemployed. The unemployment rate tracks only those who are not working and who are actively searching for work.

- Between the pre-Global Financial Crisis (GFC) 1987-2008 period and the post-GFC 2014-2017 period, the median labor force participation rate fell by 360bps or the equivalent of more than nine million people who are no longer seeking employment; they are no longer recorded as unemployed nor counted in the labor force.

- If the participation rate remains low, there is limited labor supply, and wages and inflation can potentially rise. However, if participation rises towards its historical levels since the mid 1980s, the increased supply of workers could help prevent wage pressures, keep interest rates low and elongate the economic expansion. The upward trend over the past two years (50bps) appears promising.
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