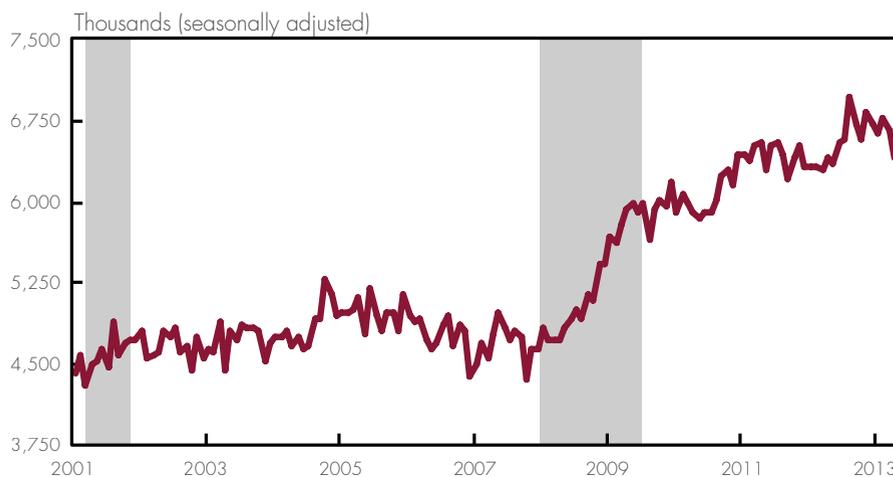


The shadow labor supply

In the wake of the Great Recession there has been a sharp rise in the number of people who indicate they want a job, but are not actively seeking one. These individuals are not considered unemployed because they are not actively seeking work and are not counted in the unemployment rate or the labor force.

Each month the Census Bureau interviews individuals and classifies them as employed, unemployed, and not in the labor force (NLF) based on recent labor market activity. For individuals not in the labor force, the Census sub-categorizes them into those "wanting a job" (NLF-WJ) or "not wanting a job" (NLF-DWJ). Thanks to a survey redesign in 1994 it is possible to consistently track individuals in these sub-groups and thus measure changes in their desire to search for a job.

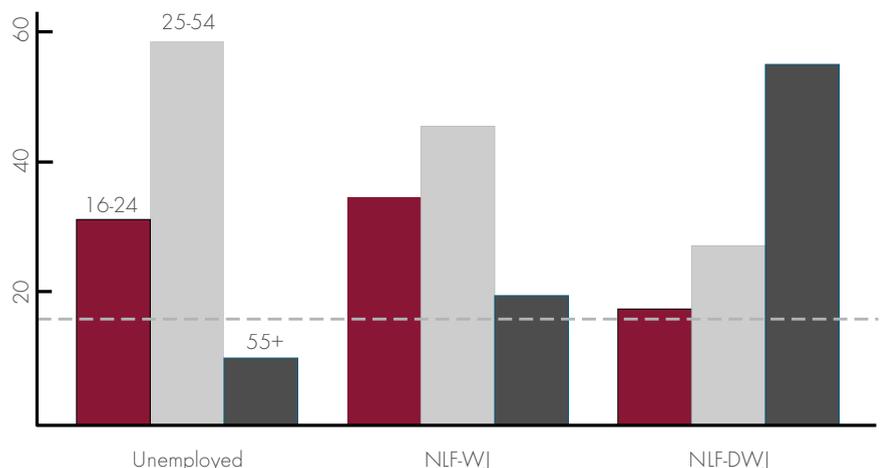


THOSE NOT IN THE LABOR FORCE BUT WHO WANT A JOB

16 years and older

AGE DISTRIBUTION BY LABOR MARKET GROUP

16-55+



NLF not in the labor force
WJ wanting a job
DWJ not wanting a job

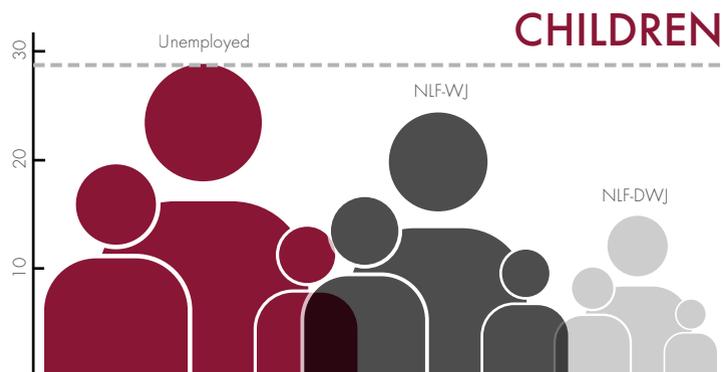
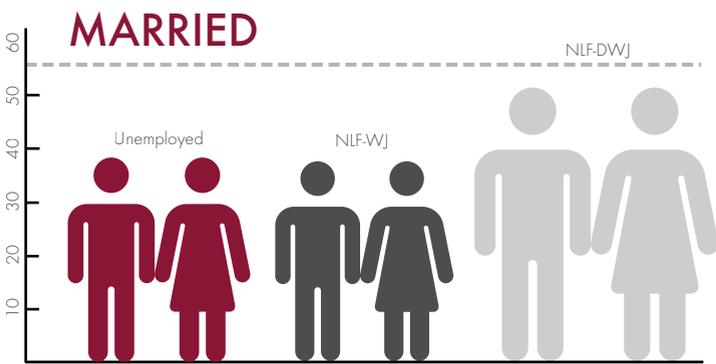
LEGEND

The shadow labor supply swelled through the first few years of the economic recovery and by early 2013 numbered some 6.7 million—nearly 2 million more than before the crisis.

6.7 MILLION

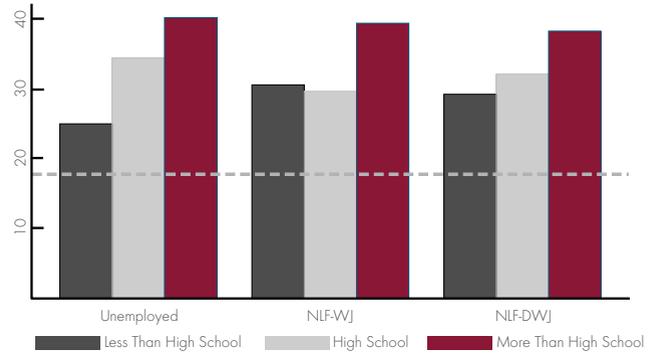


POPULATION BY LABOR MARKET



Percent With At Least One Child Younger Than 18

EDUCATIONAL ATTAINMENT BY LABOR MARKET



In their recent research, Kansas City Fed Research Director Troy Davig and Economist José Mustre-del-Río, using household level data, studied the flow of individuals in the labor market. They wrote that despite the swelling size of the shadow labor supply, a return of these individuals to the labor force in numbers that would considerably affect the unemployment rate appears unlikely, especially this late into the recovery. The peak in their return to the labor force typically occurs in the first few post-recession years. The recent, post-recession peak of their flow back into unemployment has already occurred, in mid-2010. While another surge back into the labor force by individuals in the shadow labor supply is possible, historical evidence suggests it is unlikely.

To read Davig and Mustre-del-Río's research, "The Shadow Labor Supply and Its Implications for the Unemployment Rate," go to www.KansasCityFed.org/publicat/econrev/pdf/13q3Davig-Mustre.pdf