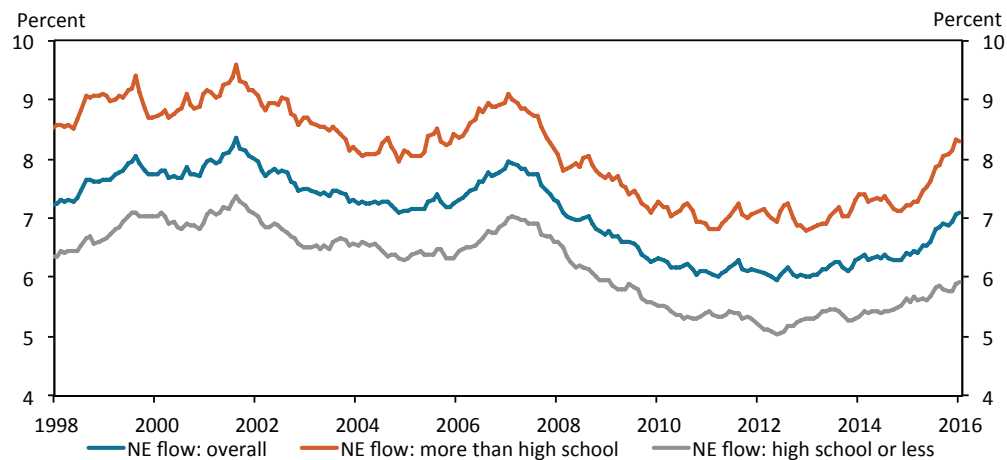


# WHERE CAN THE PARTICIPATION RATE GO FROM HERE?



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

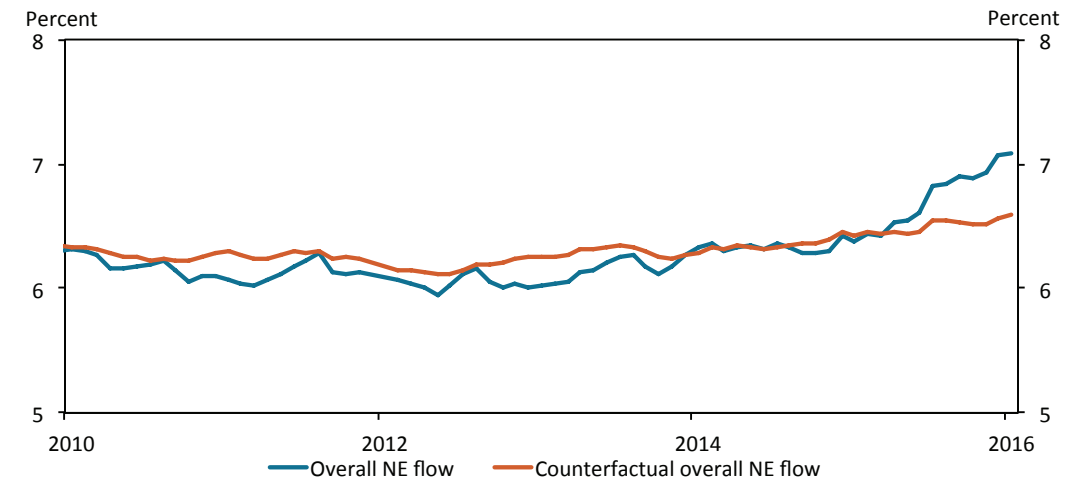
## NE flow rate for prime-age population



Sources: Bureau of Labor Statistics and economists' calculations.

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.

## NE flow rate scenarios

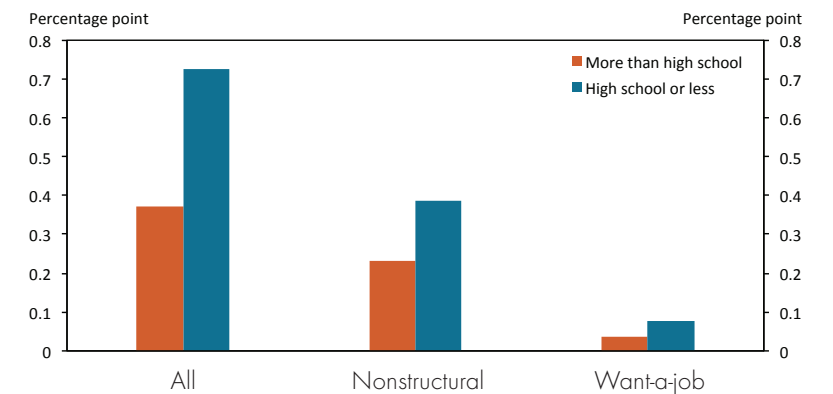


Sources: Bureau of Labor Statistics and economists' calculations.

To better gauge this recent development, Federal Reserve Bank of Kansas City economists José Mustre-del-Río and Michael Redmond, and research associate William Xu created a scenario that fixed the increased flow rate of highly educated workers in 2015 to 2013-2014's averages (counterfactual overall NE flow rate). They found that the NE flow would have only increased slightly in 2015 if it weren't for the contribution of highly educated workers.

The economists went a step further and gauged the potential effects of changes in the prime-age participation rate on the overall participation rate. The economists differentiated between increases in the prime-age participation rate for individuals with more than a high school degree versus high school or less. They also took into account differences in attachment to the labor force within the pool of workers without a job—people who wanted a job versus those who didn't and excluding the retired or disabled. In essence, they created scenarios that allowed them to distinguish what the overall labor force participation rate would be if the participation rate of these individual groups returned to their pre-recession levels.

## Labor force participation rate scenarios



Sources: Bureau of Labor Statistics and economists' calculations.

## 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 flowing into employment. 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  
<https://www.kansascityfed.org/~//media/files/publicat/research/macrobulletins>.