

Alaska's Labor Force Participation Decline

What this rate and other economic indicators combined show

By **LENNON WELLER**

The labor force participation rate tells us what percentage of the working-age population — ages 16 and older — is either working or actively looking for work. While we don't often hear about this economic indicator, it sheds light on a number of trends, such as a population's capacity to produce goods and services and the supply of available workers.

Alaska's labor force participation rate has declined substantially in recent years. The rate can change for a range of complicated reasons, some of which we will explain here. We will also take a look at the declines in the unemployment rate and our employment-to-population ratio — concurrent declines that might seem counter-intuitive — and what these measures suggest about Alaska's economy.

The size of the labor force has declined in recent years

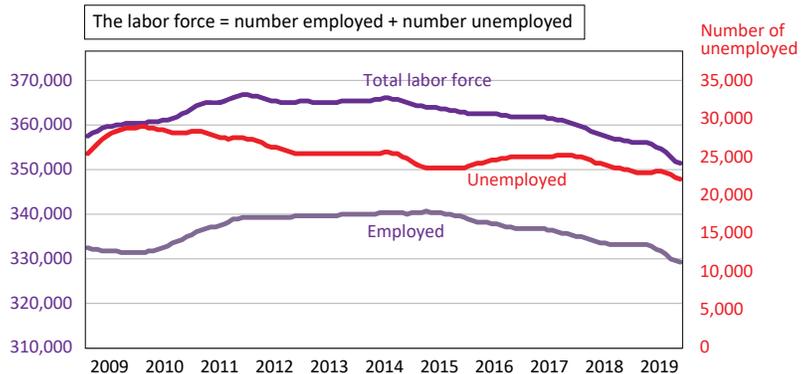
Alaska's labor force peaked in November 2011 at 366,844 people, meaning that many Alaskans 16 or older were employed or looking for a job. As of July 2019, the labor force had shrunk to 351,410.

More than 15,400 people have dropped out of Alaska's labor force since November 2011. People leave the labor force for a number of reasons, including retirement, leaving the state, going to school, caring for family members, or giving up on finding work.

It's important to look at the makeup of the labor force

1 Labor Force and Its Components Down

NUMBER OF ALASKANS WORKING OR LOOKING, 2009 TO 2019



Sources: U.S. Bureau of Labor Statistics; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

as well, keeping it mind it includes those who are unemployed. The labor force *decline* over that period was made up of 10,045 fewer people working and 5,389 fewer people looking for work. (See Exhibit 1.)

At the same time, the unemployment rate decreased by more than a full percentage point, from 7.5 percent to 6.3 percent. Given the decrease in the size of the labor force, this suggests people who lost their jobs have been more likely to simply leave the labor force altogether than to look for new jobs in Alaska.

Two declining rates show relatively fewer people working

In addition to the labor force shrinking in size, Alaska's labor force participation rate has declined, and so has our employment-to-population ratio. (See exhibits 2 and 3.) These two measures identify a state's overall ability

to support its population and its potential for economic growth.

While the total number of jobs in the state is an important measure of economic health, so are the numbers of people working or looking, and the size of the population they support. While there's no ideal employment-to-population ratio, in theory, more people working relative to the size of the population leads to greater wealth. A lower employment-to-population ratio suggests a greater burden of support on those working and less ability to meet a population's needs.

As of July 2019, Alaska's labor force participation rate was 61.8 percent, down from 68.2 percent in November 2011. The employment-to-population ratio was 57.9 percent, down from 63.4 percent.

The comparable national rates were 62.9 percent and 60.6 percent in July, respectively.

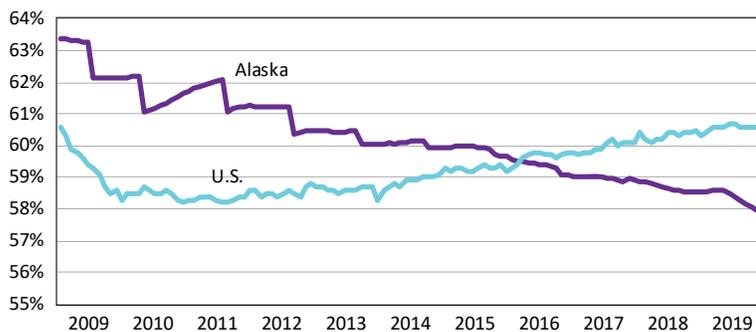
Alaska's rates moving in opposite direction from the nation's

Labor force participation rates had been declining in Alaska and nationally for years, driven by the same population aging trend, but the U.S. rate stopped dropping in 2015 while Alaska's continued to decline.

Alaska's employment-to-population ratio has also been on a long downward trend, finally falling below the nation's in 2015. Meanwhile, the nation's employment-to-population ratio has been on a slow and steady climb for much of the past decade after dropping during the U.S. recession.

3 Employment-to-Population Ratio Falls

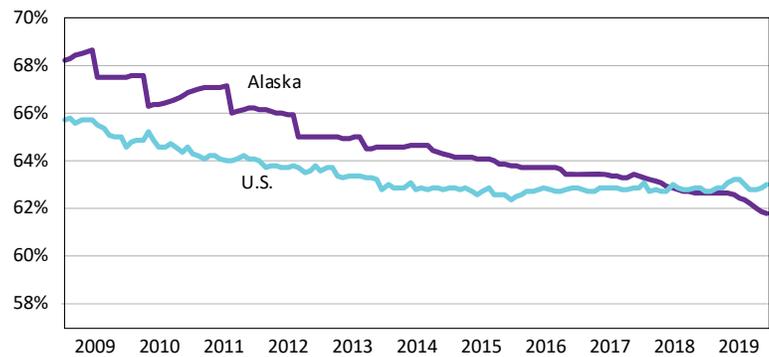
ALASKA AND U.S., 2009 TO 2019



Sources: U.S. Bureau of Labor Statistics; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

2 Participation Rate Drops Below Nation's

ALASKA, U.S. LABOR FORCE PARTICIPATION RATES, 2009-19



Sources: U.S. Bureau of Labor Statistics; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

Alaska has historically been well above the nation for both of these rates. Much of our past economic activity was project-dependent (e.g., oil and gas, hard rock mining, timber, and fishing), meaning people moving to the state were typically individuals filling a job rather than families relocating. In other words, in the past, Alaska was mainly workers — but as we began to resemble the rest of the country, with more families moving into larger population centers, Alaska's rates started to decline, narrowing the gap.

What causes changes in labor force participation rates

In general, when the demand for workers contracts, employment falls in the short-term and the unemployment rate rises. This doesn't change the labor force participation rate, but rather the composition of the labor force: The number of people in the labor force remains the same but the number employed falls and the number unemployed rises.

Longer term, however, if the slump persists, people can become discouraged about their job prospects and stop looking. They may retire, leave the state, or just stop searching. Regardless, the labor force participation rate declines.

Another factor that can shift the labor force participation rate is demographics. As a population's age structure changes, so too does the availability of people who can work.

An aging population is the trend

nationally as well as in Alaska, as the large baby boom generation reaches retirement age, so the labor force participation rate decreased as older people began to retire in greater numbers than the younger people entering the labor force to replace them.

This trend will continue well into the future. The percentage of Alaskans who are 65-plus has increased from 9.1 percent of the population (16 and older) in 2009 to 13 percent in 2017 and is projected to reach 17 percent by 2030. This factor on its own would decrease the labor force participation rate, but it's not the whole story.

Younger people participating less, and we don't yet know why

Decreases in two other age groups in Alaska, both in numbers and in their rates of participation, are exacerbating the aging-related decline in labor force participation rates.

The downward trend has been most pronounced among 16-to-19-year-olds. Alaska has increasingly fewer of them, and they're also less likely to participate in the labor force.

Alaska's population ages 16 to 19 decreased from 43,369 to 37,453 between 2011 and 2017. At the same time, their labor force participation rate dropped from 50.7 percent to 42.5 percent.

The other key age group, which is more central to our current labor force figures, is those between 45 and 54. Alaska now has fewer middle-aged workers as well; this group declined from 106,926 to 96,077, and their labor force participation rate declined from 82.5 percent to 81.9 percent. While that may not seem like a significant drop, any decline in the participation rate of a prime-working-age group is a noteworthy.

The declines among younger groups suggest a combination of factors beyond demographics are driving this trend. We don't yet understand why younger groups are participating less, and their changing behavior is an area ripe for future research.

Older people are working more, but this isn't sustainable

For a long time, older people have buffered what would

For a long time, older people have buffered what would otherwise have been a steeper fall in the labor force and the participation rate, because they are working longer than past generations. But working older can only go so far, so this buffer isn't sustainable.

otherwise have been a steeper fall in the labor force and the participation rate, because they are working longer than past generations, whether by choice or economic necessity.

Among prime-age working age adults (25 to 64), it's those at the oldest end of the spectrum (55

to 64) who have been making up for some loss in the younger groups, and particularly the middle-aged.

But working older can only go so far, so this buffer isn't sustainable. In the not-too-distant future, this mitigating factor will disappear and, if nothing else changes, the labor force participation rate will fall even lower.

How the unemployment rate decline factors in

The seasonally adjusted Alaska unemployment rate has steadily fallen from around 8 percent in 2009 to 6.2 percent as of August 2019. While that might seem positive on its face, as decreases in the unemployment rate are generally seen as desirable and increases undesirable, the unemployment rate can change for a range of reasons.

If the unemployment rate rises because people are losing their jobs when they want to work, that's an obvious negative. But a rising unemployment rate can be positive if it's caused by more people entering the labor market looking for a job.

Similarly, a falling unemployment rate can be a good sign if it means more people who want jobs are getting them. But it's important to remember the unemployment rate is calculated only from the labor force, so if people stop looking for a job, retire, or move away, they are no longer figured in to the unemployment rate. In this case, the unemployment rate decrease might not be a positive sign.

The point is that the unemployment rate only tells part of the story; its components are just as important. In Alaska's case, a shrinking labor force and relatively fewer people engaging in the labor force for multiple reasons, some of which aren't yet clear, suggests we should be cautious about assuming the declining unemployment rate is a positive sign.

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