
FLORIDA TAXWATCH

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The Unemployment Rate Is Not The Whole Story

In the years since the Great Recession, Florida's economy has grown at a steady rate. The state's annual unemployment rate (which measures the number of people not employed, but actively seeking employment as a percentage of the labor force)¹ was 5.4 percent in 2015, great news for Florida's job market considering the state's unemployment rate was more than double that at 11.1 percent just five years ago.² While unemployment figures are used by the media and politicians across the nation to paint a picture of the job market, the figures can be somewhat misleading when used without the proper context.

One key metric that is widely overlooked in the discussion is the labor force participation rate (LFPR), which measures the percentage of the total population aged 16 and above who are currently employed or are unemployed and actively seeking employment.³ While overlooked, the LFPR is one of the most important metrics to understanding the overall landscape of the job markets.

Why it is Important to Examine the Labor Force Participation Rate

To give an example of the overall importance of the LFPR, one can examine its change from 2010 to 2015. As previously stated, the unemployment rate dropped by more than 50 percent during this timespan. On the surface, many would believe the drop in unemployment was due to the fact that more jobs were created and individuals were able to get back to work, and to some degree that is true; however, a look at the LFPR also sheds some light on the story.

While unemployment was dropping over that timespan, so was the labor force participation rate. From 2010 to 2015, the LFPR dropped from 61.6 percent to 59.3 percent, the lowest rate since 1983.⁴ While the rate dropped, this does not mean that the number of individuals participating in the work force dropped (it actually rose by roughly 460,000), but that it was not able to keep pace with the growth in population (which grew by approximately 1.35 million people).⁵

1 The labor force does not count those who have retired, full-time students, homemakers, or those who are neither working nor seeking work.

2 Florida TaxWatch Analysis of United States Bureau of Labor Statistics data. Data published as of March 1, 2016.

3 Labor Force Participation as defined by the United States Bureau of Labor Statistics.

4 Florida TaxWatch Analysis of United States Bureau of Labor Statistics data. Data published as of March 1, 2016.

5 Florida TaxWatch Analysis of United States Bureau of Labor Statistics data. Data published as of March 1, 2016.

Why the Labor Force Participation Rate is Dropping

Aging Population

Economists have been debating the reasons behind the drop in the labor force participation rate for many years, as this is a problem that has been experienced not only in Florida, but in states across the nation.⁶ A common theory cites the change in demographics in recent years, specifically the aging of baby boomers. In 2008, the first wave of baby boomers reached the age of 62, making them eligible for Social Security benefits.⁷ This theory is especially relevant to the state of Florida, which is known for its elderly population. In fact, forecasts estimate that from 2010-2020, the fastest growing population in Florida—by a wide margin—is the 65 and up age group, expected to make up 37 percent of population growth over that timespan.⁸ With the increase in retirement-aged individuals, it is likely that the drop in the labor force participation rate will continue.⁹

“Discouraged” Workers

Another factor that influences the labor force participation rate, while also affecting the unemployment rate, is the presence of “discouraged” workers. Typically these workers have been unemployed for an extended period of time, yet have given up their job search because they believed no jobs are available for them or there are none for which they would qualify.¹⁰ These individuals are not counted in the labor force or considered when calculating the unemployment rate. This in turn leads to a somewhat false representation of the true number of individuals that are unemployed. While discouraged workers have always been kept out of these metrics, their presence has become more prevalent in recent years. In 2014, the Congressional Budget Office stated that one reason for the drop in the LFPR across the nation is “the unusually large number of people who have decided to not look for work because of a lack of job opportunities.”¹¹ By the last quarter of 2015, Florida had 55,700 residents who were considered discouraged.¹² Had these residents been counted in the labor force and considered in the unemployment calculations, Florida’s unemployment would have increased by more than a half of a percent to nearly 6 percent.¹³

Delayed Entry to Workforce for Young Adults

While the elderly population is retiring, the vacancies in the labor force are not being filled at the same rate with the young population. Over the past 15 years, participation in the Florida workforce by residents under the age of 44 has fallen at a low but consistent rate.¹⁴ This is in part due to the fact that younger adults have placed a higher value on their education. In the past 25 years, the number of individuals

6 *Getting Workers Back Into the Workforce. The PEW Charitable Trust. April 7, 2014.*

7 *Getting Workers Back Into the Workforce. The PEW Charitable Trust. April 7, 2014.*

8 *Florida Demographic Estimating Conference. February 2015.*

9 *Trends In Florida Labor Force Participation. Bureau of Economic and Business Research. February 10, 2016.*

10 Discouraged Workers as defined by the United States Bureau of Labor Statistics.

11 *Getting Workers Back Into the Workforce. The PEW Charitable Trust. April 7, 2014.*

12 The Federal Reserve Bank of St. Louis data.

13 Florida TaxWatch Analysis of United States Bureau of Labor Statistics and The Federal Reserve Bank of St. Louis data. Data published as of March 1, 2016.

14 *Trends In Florida Labor Force Participation. Bureau of Economic and Business Research. February 10, 2016.*

*As it relates to the percentage share of the overall participation rate

enrolled in post-secondary institutions has increased by more than 52 percent nationwide.¹⁵ The emphasis on job training at post-secondary institutions is a side effect of an advancing job market. It is projected that by 2020, 65 percent of all jobs will require a post-secondary education.¹⁶ This advancement in the job market has delayed individuals from entering into the labor force while they seek an education and/or job training. The end result has created a situation where more individuals are leaving the labor force than can be replaced.

Boosting the Labor Force Participation Rate

The federal government and the state of Florida have acknowledged the need to increase the LFPR.

Examining the main factors that cause a decline in the LFPR, one factor in particular sticks out.

Discouraged workers are taken out of the workforce because they believe that there are not available jobs or jobs that suit their skill set. Addressing these concerns, the federal government and the state of Florida have passed initiatives that help create jobs, and help arm individuals with the skills they need to compete in the modern workforce.

In 2014, President Barack Obama signed the Workforce Innovation and Opportunity Act (WIOA) into law.¹⁷ While the law covers various aspects of job training, it in part provides educational opportunities for adults to help better train them with the skills that are desired in their area. WIOA is partnered with Career Source centers in Florida and has been championed by the governor and the Department of Economic Opportunity in Florida.¹⁸ The partnership with Career Source Florida grants residents in Florida access to career counseling, career planning, job training, and other resources that are valuable to discouraged workers. The program gives these individuals a resource that helps them get back into the workforce.

The state also uses incentives to help bring businesses to the state. Enterprise Florida, a public-private partnership, is the state's principal economic development tool. Tasked with incentivizing companies to relocate or expand in the state, Enterprise Florida's main goal is to increase job opportunities available to Florida residents. Increasing the access to available jobs is key to helping discouraged workers get back to work, as well as helping to increase the labor force participation rate.

Conclusion

While the labor force participation rate may be overlooked it is a key metric when examining the health of the Florida job market. While it is great that the unemployment rate has been in steady decline since the Great Recession, the decline in the labor force participation rate shows that the percentage of Floridians competing in the job market is actually at a 32 year low. Understanding what the labor participation rate is and how it relates to the overall job market is key to understanding the true strength of the Florida job market and economy.

¹⁵ *Where Are All the Workers?* U.S. News & World Report. July 16, 2015.

¹⁶ Carnevale, P. Anthony. Smith, Nicole. Strohl, Jeff. *Recovery*. Georgetown University.

¹⁷ *OCTAE: Workforce Innovation and Opportunity Act*. U.S. Department of Education.

¹⁸ *Workforce Services: Workforce Investment and Opportunity ACT (WIOA)*. January 2016.

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