

## Notes on the Labor Force Participation Rate Forecast

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Moody's Analytics introduced a new forecast for the labor force participation rate (FLBT). The new path for participation is produced by combining forecasts of the labor force participation rate for 14 age and gender cohorts with forecasts of the civilian noninstitutional working-age population for each cohort. The 14 cohorts encompass men and women ages 16-19, 20-24, 25-34, 35-44, 45-54, 55-64 and 65 and older.

Four groups are considered: young workers ages 16 to 24, prime-age workers 25 to 54, workers age 55 to 64, and workers older than 65. The major change from the previous forecast is greater pessimism about the outlook for the participation of younger cohorts.

The labor force participation of teenagers declined sharply between 2000 and 2010, from 52% to 35%. It has trended flat since. A similar, though less pronounced, decline occurred for young adults ages 20 to 24. It fell from 78% in 2000 to less than 71% since the labor market expansion began. In the new labor force participation forecast, the rates of both of these groups of young workers remain relatively flat at their 2016 pace. Previously, some recovery had been baked into the forecast.

In contrast to the weaker participation of younger workers, that of prime-age workers has rebounded. The rate peaked at 84% in the late 1990s as the entry of more women offset the slow decline in the labor force attachment of men. The two recessions since then pushed many prime-age workers out of the labor force. In particular, the Great Recession led to a decline in participation from 83% to less than 81% in 2015. Since then, it has bounced back by a percentage point. The new forecast incorporates a continuation of the rebound at a steady pace until it returns to its prerecession average by 2019.

No such rebound is envisioned for workers ages 55 to 64. Unlike younger workers, this group's participation grew steadily between 1985 and 2009. It peaked at 65% during the recession and has slipped since to 64%. Their participation is expected to remain steady in the forecast.

Labor force attachment of workers older than 65 has also increased steadily since 1985, nearly doubling from 11% to 20%. Their participation will continue to increase as baby boomers remain in the workforce longer. However, it will not increase indefinitely. The participation of older women will slowly rise from under 16% and top out at 20%, while the participation of men will rise from 24% to 26%.

Combining these projected participation rates by age and gender with forecasts of noninstitutional civilian population by age and gender will result in continued strengthening in overall participation through mid-2018, when it will peak at 63.1%. The aging of the population will subsequently overwhelm higher participation of certain cohorts. Participation will decline steadily, reaching 60.8% by 2046.