Employment Situation Analysis

Little Optimism For Quick Relief

By Dan Meyer

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Recent monthly job gains fell well short of expectations—yet the unemployment rate continued to fall—which raises the question of what unemployment numbers really tell us. On the surface, recent reports make no sense, and in the past, this has boiled down to the nuanced definition of "unemployment" used by the Bureau of Labor Statistics. It is just one of the disparities that make unemployment statistics so easy to misunderstand and so easy to spin. This is not a political swipe, as the issues identified herein span administrations of both stripes, including the impacts of government responses to the pandemic. By digging deeper than the official unemployment rate, we seek to identify trends in government employment and unemployment statistics that might further illuminate where some of the key national problems lie.

Unemployed vs. Not Working

By definition, U.S. citizens are only "unemployed" if they are 1) not working, 2) want to and are available to work, and 3) have "actively" looked for a job in the last four weeks (not just scanned online job boards) (Table 1). The national unemployment rate is then calculated as the number of unemployed divided by the labor force (employed + unemployed), not by the population.

Table 1

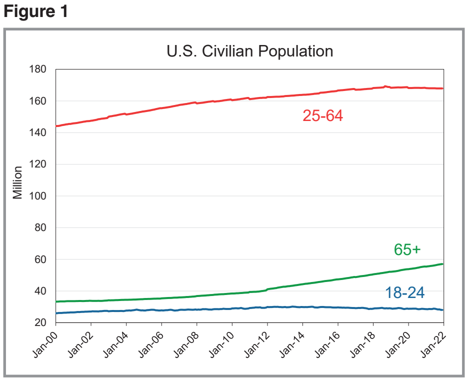
LABOR FORCE	NOT IN LABOR FORCE
EMPLOYED Worked at least 1 hour as paid employee in reference week 123,779,000 (73.7%)	**Don't Want a Job** 33,812,000 (20.1%)
UNEMPLOYED Available for work Made an active effort to find a job during last 4 weeks 6,138,000 (3.7%)	**Want a Job** Available for work Have not actively searched for work in the past 4 weeks 4,265,000 (2.5%)

Number and percentage of the average U.S. population aged 25 to 64 in 2021 by labor force status (Hardwood Review, BLS). [*"Not in labor force" breakdown based on Dec 2021 data for 25-54-year-olds, during which 11.2% wanted a job, down from 14.3% in Dec 2020.]

Among the people who want a job, the only difference between being "unemployed" and "not in the work force" is whether they searched for a job in the last four weeks. And that distinction can make a significant difference in the headline unemployment reports. If unemployed people quit looking for work because they've grown weary of searching, or have gotten discouraged about finding a job, they fall off the unemployment rolls and out of the labor force. They are no less wanting a job—and no more employed—but their "rebranding" has the effect of lowering the unemployment rate, even though it potentially signals a worsening job market. The same can happen in reverse during a growing jobs market. As more people grow confident work is again available and begin searching again, they move from "not in the labor force" to "unemployed" status before eventually finding work, which can cause the unemployment rate to rise even as the jobs market is improving.

Neither of those scenarios appear to have been the case in 2021. Rather, employment growth in working-aged adults (25- to 64-year-olds) between December 2020 and December 2021 (+4.3 million jobs) outpaced overall growth in the labor force by four to one. That means that people came back into the workforce at a much slower pace than employment gains would have dictated, and that most of the net job gains in 2021 went to people who were already in the labor force (unemployed) and actively looking.

Figure 1



U.S. population by age class (*BLS, Hardwood Review*).

Because so relatively few people re-entered the labor force, the unemployment rate for working-age adults came crashing down in 2021, from 6.1 percent in January to 3.2 percent in December. That garnered a lot of headlines, but how "good" it is depends on the answer to why, with job gains so large, so many elected to remain on the sidelines and not look for work. In December 2021, 54 percent of those aged 25-54 who were not in the labor force but said they wanted a job (2.3 million people) also said they had not actively looked for a job in the last 12 months. As a result, while the number of "unemployed" working-aged adults is now back down to pre-pandemic levels, there are still more than 2 million fewer working today.

Impacts of Population Demographics

Changes in population can also have a significant impact on the jobs picture, especially on labor participation rates, and there have been major shifts in recent years. From 2008-2019, growth in the U.S. working-age population slowed to less than 900,000 per year. In 2020 and 2021, that population age bracket actually shrank by 242,000 (Figure 1). Since the labor force participation rate is simply labor force divided by population, a stagnating or declining population works to inflate the labor force participation rate, whether or not any more people are actually in the labor force.

Had the working-age population continued to grow at the 2000-2007 pace through 2021 (1.9 million/year), there would be 185 million people in that age bracket today, not the 168 million we currently have, and the labor force participation rate would be much lower than today's 77.6 percent. We'd likely be facing a job shortage rather than an employee shortage.

There are serious implications of a stagnating or declining working-age population, which are only compounded by any additional issues that cause a larger percentage of that population to sit out of work. The decline in the working-age population results from an increase in the rate at which people are aging out of the bracket—coinciding with the first Baby Boomers turning 65 in 2011—and a decline in the rate at which 18- to 24-year-olds are aging in. The youngest Baby Boomers are 57 today, so we can expect the elevated aging-out to continue for another seven to eight years, leaving employers to fill currently open slots, and those left vacant by upcoming retirements, from a shrinking pool of potential hires. And, with fewer young people entering the working-age class, competition for young talent will only intensify.

Fewer People Looking for Work

As has been implied throughout, there are simply fewer people looking for work today. From 2009-2011, coming out of the Great Recession, 20-25 percent of working-age people that were not working were classified as "unemployed," and thus, actively seeking work. Likewise, from April through August 2020, in the months immediately following the onset of COVID lockdowns and closures, 23-28 percent of non-working, working-age people were actively seeking employment. That number only averaged 14 percent in 2021, and fell to 10 percent in the fourth quarter, which is something many of our hardwood industry contacts seem to intuitively understand.

That could mean one of several things. People could be discouraged about their abilities to find a job and have given up searching for work. Or, people may have found alternative sources of income and no longer need to work, such as government stimulus and unemployment insurance. Others may have enough virus fear that they are making do, cutting back, or moving in with parents, or have been forced not to work because of closed schools/day care centers.

Some of the decline in job seekers, however—potentially a large part of it—could be that many of the people who wanted to work have found jobs, reducing the number of non-working people still interested in working. As noted above, we still have a historically high percentage of the working-age class that is not in the labor force. But, at 22.4 percent, it's not that much higher than the pre-Great Recession average of 21 percent. If we assume that 21 percent of the age bracket has no desire to work, there are only 2.3 million working-aged people yet to be pulled back into the labor force—which will presumably require greater incentives than the ones that have failed to budge them yet.

Hardwood Implications

While many have fingered expanded unemployment benefits and COVID relief payments for the labor shortage, this simple statistical review suggests many of the direct impacts from those programs may be behind us. Whether those extended payments caused a shift in the nation's collective desire to work is another discussion, but it does appear that a good majority of the people who want to work are working. If so, then no policy change will bring a flood of new applicants to hardwood companies. Rather, the pool of available workers will continue to shrink due to economic expansion and demographic shifts, and competition will intensify from companies and industries that can offer higher wages and easier working conditions.

While not efficient or productive, in the traditional sense, many hardwood manufacturers have adapted to extreme labor shortages over the last several years by reducing the number of shifts and rotating employees between stations, or even between plants. Where increased automation is out of reach, those types of strategies will be necessary going forward for producers wishing to sustain current production levels.

That's not to say we shouldn't continue to fight for policies that allow the best operating environment for industry members, or that companies should not continue to seek innovative ways to attract and retain quality employees. Rather, that the odds seem stacked against any quick, comprehensive resolution to what has become one of the most universal struggles in the industry.