



Where are the Workers?

by Christopher Bradley, Senior Economist

Despite record-breaking levels of unemployment in 2020, Montana's unemployment rate has returned to pre-recession levels quickly. As more Montanans received vaccines this spring and the last of the prevention measures were lifted, employers suddenly demanded large numbers of workers all at once. However, while employers may be returning to "business as usual," there are still many factors limiting Montanans from returning to full-time work. By understanding these factors, employers can target recruitment efforts or adapt job requirements to fit worker needs. This month's EAG explores the primary reasons people stay out of the labor force and how the pandemic affected worker supply.

Labor Force Participation Overall

The pandemic led to a notable drop in labor force participation with little improvement through the first five months of 2021. Seen in **Figure 1**, participation in the labor force is lower than any point in the last ten years, down to 61.5% in May 2021 with about 7,500 fewer workers in the labor force than before the pandemic. Montana had already been facing a worker shortage prior to the pandemic with lower labor force participation in Montana and the U.S. compared to 10 years earlier. Increasing labor force participation will require addressing reasons why workers choose not to seek work.

What is the labor force?

The labor force is people 16 and older who are working or actively looking for work.

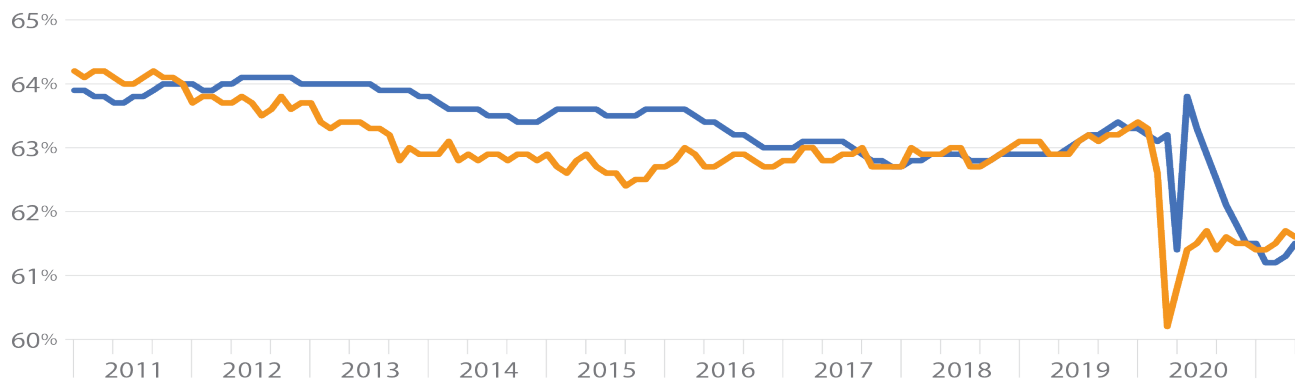
Who is not in the labor force?

Everyone else (16 and older) is not in the labor force. This can include retirees, people in school, or people with family responsibilities who are not working.

What is the labor force participation rate?

The participation rate is the percent of all people 16 and older who are in the labor force.

FIGURE 1
Montana and U.S. Labor Force Participation Rates

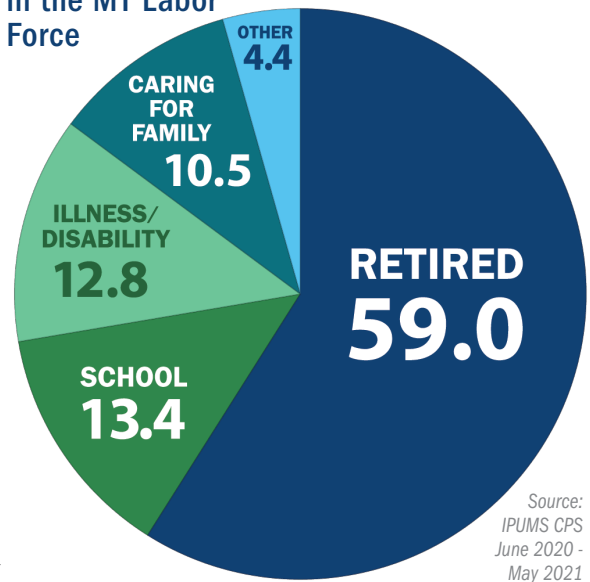


Source: BLS Current Population Survey and Local Area Unemployment Statistics

People cite four primary reasons for not engaging in the labor force. Retirement, illnesses and disabilities, school, and family care account for 96% of the total reasons reported. **Figure 2** illustrates that Retirement is by far the most common reason cited at 59%, followed by School (13.4%), Illness and/or Disability (12.8%), and Caring for family (10.5%).

Three things can occur that would cause Montana’s labor force to grow. First, long-term population growth can naturally increase the number of people in the workforce, although these changes can take decades to be noticeable. Second, in-migration to Montana from other places can bring in new workers of all ages. The migration of foreign workers to fill seasonal jobs has been affected by COVID-19, but migration from other states can help fill worker needs. According to the U.S. Census Bureau, Montana is already among the states with a higher rate of net migration and added a net 8,000 people per year from migration between 2014 and 2018. The third way for the labor force to grow is through increased labor force participation. Employers and policy makers can create incentives to bring people into the workforce who are not currently seeking work.

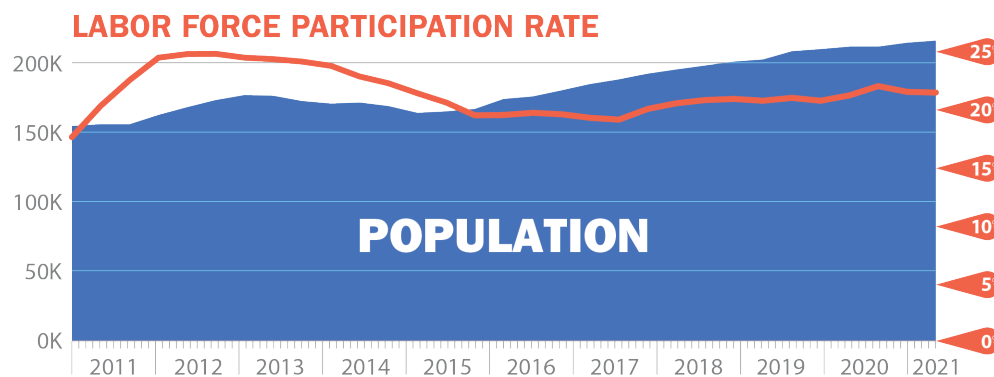
FIGURE 2
Reasons for Not Being in the MT Labor Force



Retirees

Retirements are the most common reason for people not participating in the labor force (**Figure 2**). In the last year 59% of the population not looking for work, about 193,000 people, was retired. An aging population is the main driver of workers leaving the labor force for retirement. **Figure 3** shows Montana’s growing population over age 65 and its relatively low labor force participation rates. At 21.5%, participation in the labor force for people over 65 is much lower than the overall rate of 61.5%. In 2011, labor force participation rates for people over 65 rose in response to the damage the market crash caused to retirement prospects. However, as the market improved rates declined until 2017 before increasing at the end of the decade.

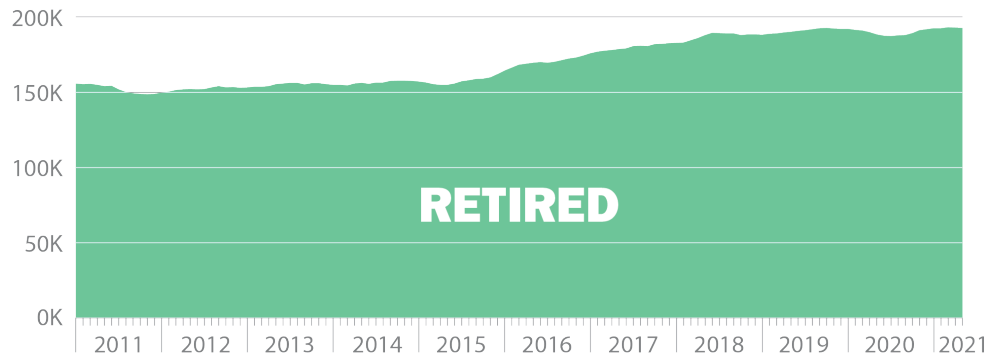
FIGURE 3
Population Over 65 and Labor Force Participation



Source: IPUMS CPS January 2010 - May 2021, estimates are rolling annual averages.

Even before the pandemic, attracting or retaining older workers was a goal of many employers trying to minimize the loss of institutional knowledge that experienced, retiring workers possess. Increasing participation rates leading up to 2020 suggest there some success in those efforts. However, during the past year there has been speculation that the pandemic spurred a wave of retirements. In 2020 labor force participation rates declined for people over 65 (**Figure 3**) while the number of people not in the labor force who were retired in Montana declined slightly in 2020 before rebounding (**Figure 4**). These contrary occurrences suggests that labor force participation among older individuals was not due to increasing retirements but instead temporary dropouts out of caution around contracting the coronavirus.

FIGURE 4
Number of Retired People in Montana

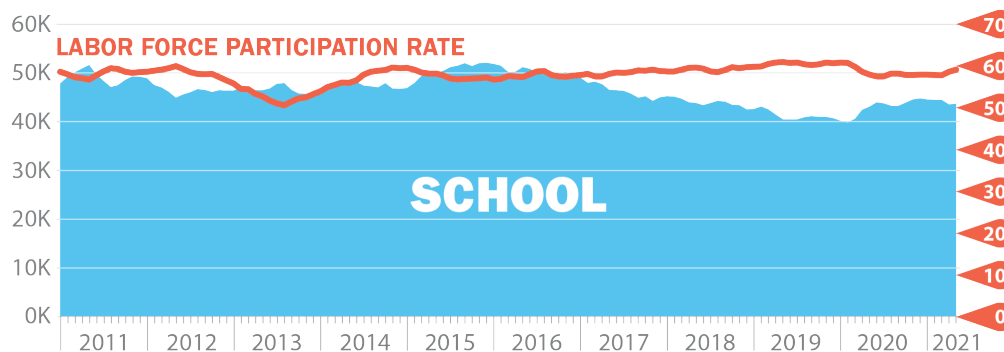


Source: IPUMS CPS, January 2010 – May 2021, estimates are rolling annual averages

School

Attending school is the second largest reason for Montanans not being in the labor force. While people of all ages may stop working to attend school or receive training, this group is primarily composed of young individuals attending high school, college, or university. In the long run, this time out of the labor force to increase education levels is good for the economy as education increases worker productivity. Approximately 43,700 Montanans 16 and older were not in the labor force to attend school in May 2021. Like retirements, the number of individuals in school often reflects the size of the young population. Since 2013, labor force participation for people under 24 has slowly increased and the number of people out of the labor force and in school has declined (figure 5). Like how the baby boomer generation has driven a growing number of retirees in Montana, the large millennial generation aging out of the primary years for school has contributed to the declining number of Montanans not in the labor force due to school. Additionally, rising average wages in Montana drew more young workers into the labor force.

FIGURE 5
Students Not in the Labor Force and LFPR for Montanans 16-24



Source: IPUMS CPS January 2010 – May 2021, estimates are rolling annual averages

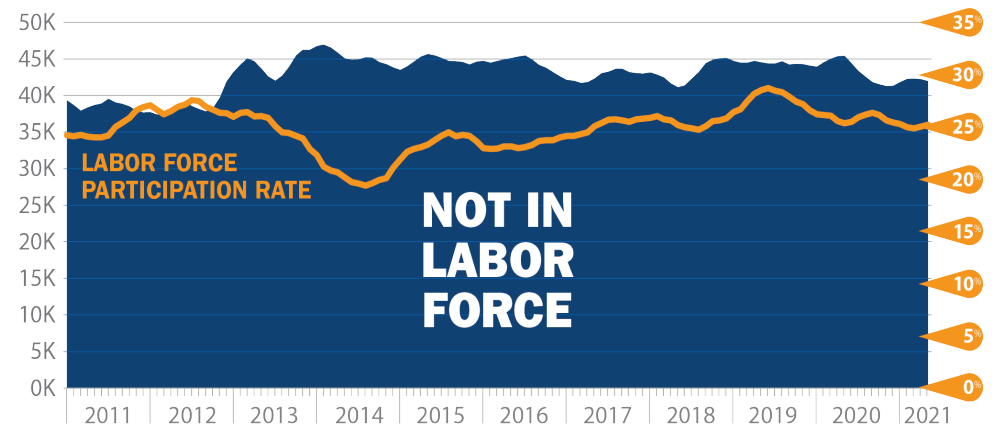
The pandemic reversed the trend seen through the latter half of the 2010s. Labor force participation decreased among people 16 to 24 and the number of people out of the labor force and in school increased. Young workers were disproportionately impacted by the recession with heavy job losses in the retail and leisure activities industries. These lost jobs often have more flexible scheduling and low entry requirements, making them appropriate for students looking to balance work with classes. However, the trends shown in **Figure 5** suggest students dropped out of the labor force entirely after losing their jobs last spring. More recently, labor force participation rates have ticked up, suggesting that students may be returning to the labor market.

Illness and Disability

Illnesses or disabilities is another of the most common reasons that people cite for not participating in the labor force. Injuries and illnesses typically lead to temporary labor force exits, but the number of people affected at any given point of time varies between 40-45 thousand Montanans (figure 6). According to the 2019 Survey of Occupational Injuries and Illnesses, Montana workers experience workplace injuries at a rate of 3.9 injuries or illnesses per 100 full-time equivalent workers. This ranks Montana 4th highest in the country. Decreasing the occurrence of workplace injuries would reduce the number of people temporarily or permanently out of the labor force due to injury. Additionally, the large number of workers who cite injury and illness suggests that employers willing to make accommodations for workers may find a broader pool or potential employees available to them.

Fewer people cited illnesses or disabilities as a reason for dropping out of the labor force during 2020, yet labor force participation rates declined among those who did. The lower number reporting illness or disability is likely due to overall employment declines and possibly due to fewer injuries while working from home. The lower labor force participation rate among those with illness or injury is likely due to this population having conditions that put them at higher risk of severe COVID-19 symptoms, causing these workers to drop out of the labor force entirely.

FIGURE 6
Not in Labor Force and LFP Rates for Montanans with Illnesses/Disabilities



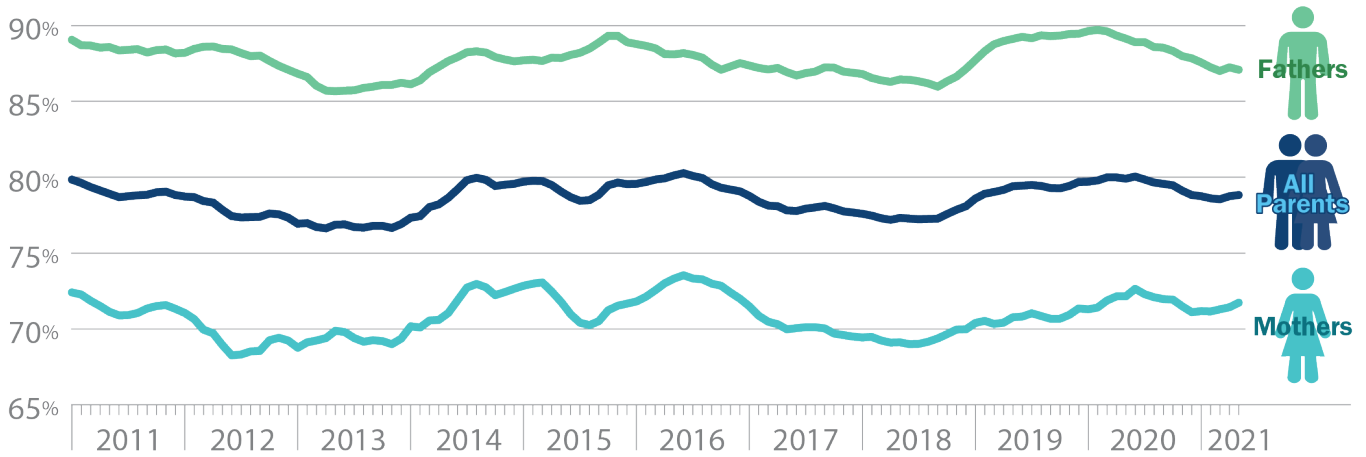
Source: IPUMS CPS January 2010 - May 2021, estimates are rolling annual averages

Family Care

Taking care of dependent children or adults is the 4th most common reason for not participating in the labor force. As of May 2021, a monthly average of approximately 35,000 people are not in the labor force to care for family.¹ A lack of affordable childcare or senior care can make working unaffordable for some parents, especially those with multiple children. In May 2021, the labor force participation rate of parents was just under 80%.

¹ IPUMS CPS June 2020 - May 2021

FIGURE 7
Labor Force Participation Rates of Parents in Montana



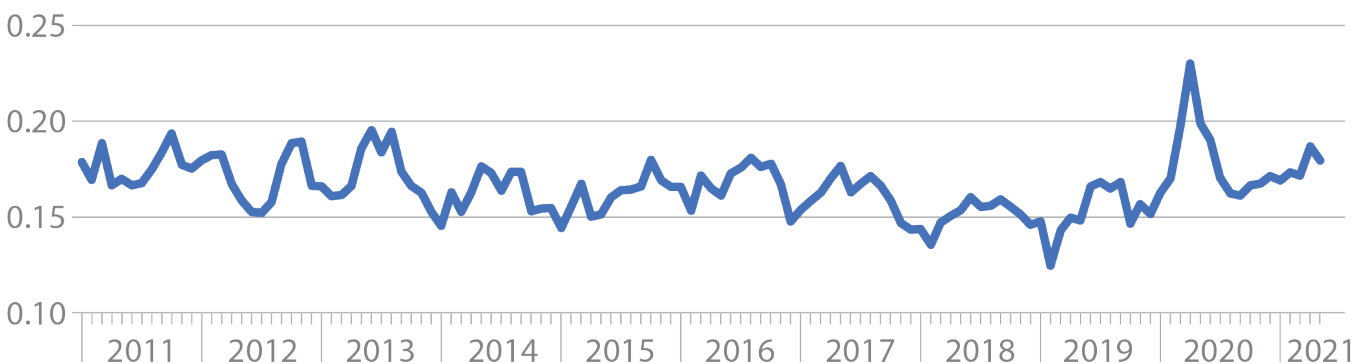
Source: IPUMS CPS January 2010 – May 2021, estimates are rolling annual averages

The pandemic had significant impacts on parent’s ability to work. Schools moving to remote learning and closures of childcare centers placed a strain on parents who needed to work while caring for their children. Both mothers and fathers decreased labor force participation in 2020, with the decline in participation higher among fathers than mothers. The impacts of family care on labor force participation fall more heavily on mothers, who participate at a rate of 71.7% compared to 87.1% for fathers. With mothers already more likely to be out of the labor force relative to men, it is possible that the new difficulties introduced by the pandemic led to a greater response in labor force dropouts from men. By May 2021, labor force participation rates began to recover for mothers.

Self-Employment – In the Labor Force but Not for Hire?

Self-employment also influences the pool of workers available for hire in Montana. Self-employed workers are in the labor force but are often not applying for the jobs that employers are trying to fill. Leading up to 2020, the share of workers who were self-employed was declining as rising hourly wages attracted many of the self-employed into payroll jobs. However, in 2020 there was a spike in the percentage of workers who were self-employed and a change in the trend. The percentage of workers in self-employment increased through 2020 and 2021. As workers were laid off, many were likely to have sought gig work or other temporary

FIGURE 8
Self-Employed Workers as a Share of Total Employment



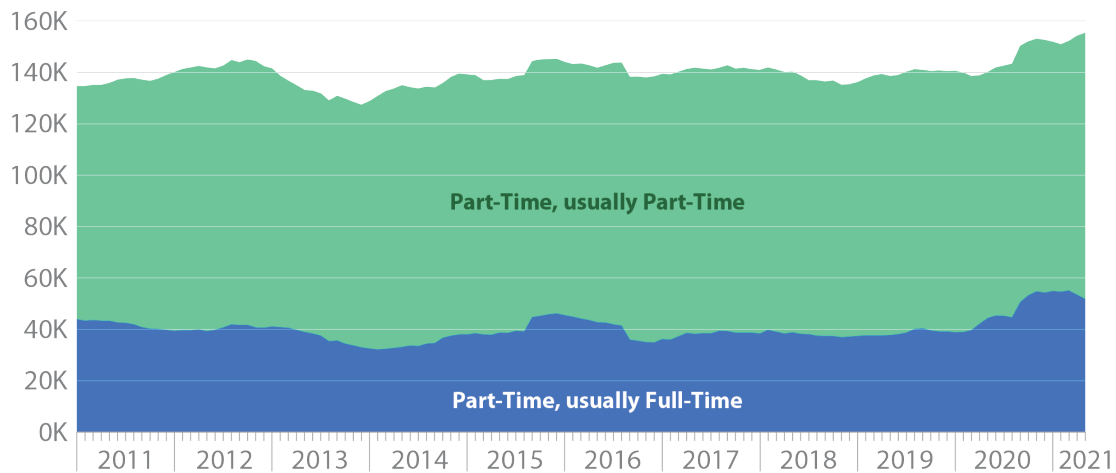
Source: IPUMS CPS

opportunities for income while they waited for businesses to reopen. Additionally, more time at home amid lockdowns may have spurred many workers to pursue new businesses and contribute to a wave of entrepreneurialism. This trend is a positive for Montana’s economy in the long term if these businesses survive and grow, but increased self-employment also reduces the workers available for payroll work

Work Hours

Montana’s labor force participation rate is higher than the U.S. because there is a larger share of people working in part-time jobs as opposed to not working at all. The average work week in Montana was 33.4 hours in 2019 compared to 34.4 hours² for the U.S. Prior to the pandemic, around 140,000 of Montana’s workers were in part-time work, a mix of jobs that are usually part-time and those that have reduced hours temporarily. In 2020, the average work week fell to 32.8 hours for Montana workers. If Montanans would have maintained a 33.4 hour work week in 2020, they would have worked nearly 230,000 more hours – equivalent to 5,700 full-time (40-hour/week) employees. The pandemic increased the number of people working part-time who usually work full-time. Identifying the reasons that work hours have decreased and making it possible for full-time work hours to be maintained can help reduce the need to look for new workers.

FIGURE 9
Self-Employed Workers as a Share of Total Employment



Source: IPUMS CPS January 2010 – May 2021, estimates are rolling annual averages

Conclusion

Labor force participation will need to be increased to address worker shortages in Montana. Employers will need to find ways to attract older workers close to retirement, workers with illnesses and disabilities, parents and caretakers, as well as students who are not working. On top of that, employers may benefit from attracting self-employed or part-time workers into working more hours. The pandemic has added new challenges to this dynamic, with the workforce being greatly disrupted in the past year. For more information about unemployed workers and those not in the labor force in Montana, up to date labor market information can be found at www.lmi.mt.gov.

² BLS Current Employment Statistics