

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2021



What's Down with the Unemployment Rate Since COVID-19? **By David Zin, Chief Economist**

As a result of the COVID-19 pandemic, the number of individuals employed in the US declined by 25.4 million between February 2020 and April 2020—the largest and most rapid peak-to-trough employment change in US history. As of May 2021, employment remained more than 7.1 million jobs below the February 2020 level, approximately 83% of the total peak-to-trough decline in employment that occurred during the 2008-09 recession. However, despite the significant job losses, the US unemployment rate in May 2021 was 5.8% and below the level exhibited between August 2008 and October 2014. The reason the unemployment rate can be lower than it was in the aftermath of the 2008-09 recession despite the decline in employment reflects that the unemployment rate is a ratio of the number of unemployed individuals to the labor force. If individuals who lose their jobs also leave the labor force, it reduces the impact of the job losses on the unemployment rate. In May 2021, the US labor force totaled 160.9 million individuals, down more than 3.5 million individuals from the level in February 2020.

Michigan has experienced similar changes as the employment situation nationally. Between February 2020 and April 2020, employment declined by more than 1.2 million jobs, 2.7 times the employment decline from December 2007 and the employment trough in December 2009. As of May 2021, Michigan employment was still down approximately 280,000 jobs, roughly 58% of the peak-to-trough decline in Michigan employment during the 2008-09 recession. Similarly, the Michigan unemployment rate in May 2021 was 5.0%, a level not reached after the 2008-09 recession until October 2015. Mirroring the labor force changes at the national level, in May 2021, the Michigan labor force totaled 4.7 million individuals, down more than 217,000 individuals from the level in February 2020.

Historically, recessions have not exhibited substantial declines in the size of the labor force. For example, during the 2008-09 recession, the US labor force declined by only 807,000 individuals between December 2007 and December 2009—and in 17 of those 24 months during the recession the labor force exceeded the December 2007 level. This *State Notes* article examines demographic changes in the US and Michigan labor force, particularly since February 2020, the month before COVID-19 became prevalent in the United States and pandemic control efforts became widespread. The article also examines labor force changes over this period within Michigan, at both the county level and for metropolitan areas.

Background on the Unemployment Rate and the Labor Force

Labor data come from two primary surveys: one that surveys households (i.e. individuals) and one that surveys employers (i.e. businesses/business establishments). The household survey is used to capture not only things like unemployment and self-employment but many demographic factors for workers and the unemployed. The establishment survey captures information associated with payrolls (payroll employment and factors such as average weekly hours or earnings), as well as information regarding economic sectors such as manufacturing, retail trade, or professional and business services. For larger survey groupings, the information is available on a seasonally adjusted basis, while portions of the surveys are available without seasonal adjustments. In some cases, data are available on a monthly basis, while in other cases only quarterly or annual data are available.



Under the household survey, individuals are counted as employed if they did any work for pay or profit during the week of the survey (which is conducted monthly). As a result, the employed includes full-time, part-time, and temporary workers. Individuals also are considered employed even if they did not work during the survey week, whether they were paid or not, if they did not work for a variety of reasons, including being on vacation, ill, addressing family obligations, or involved in a labor dispute. Individuals are counted once, even if they have multiple jobs, and employment does not count unpaid/volunteer work or work around one's own home, such as cleaning, repairing, or other housework. Similarly, people are classified as unemployed if they do not have a job, have actively looked for work at any time during the previous four weeks, and are available to work.

The labor force represents the sum of those who are employed and unemployed. Individuals who do not fit in either category are considered not to be in the labor force. Many individuals are not in the labor force because they are attending school or are retired. Family responsibilities are another factor that often results in individuals not being included as part of the labor force.

Because the unemployment rate is a ratio of the unemployed to the labor force, changes in either the numerator (the unemployed) or the denominator (the labor force), can affect the unemployment rate. More can be found on how the unemployment rate can be affected by the relative changes in employment, unemployment, and the labor force in other work published by the Senate Fiscal Agency,¹ which includes examples of situations in which the unemployment rate might increase despite employment gains, or fall despite declining employment. The latter situation is apparent in much of what has happened to the unemployment rate since the beginning of the COVID-19 pandemic.

A simple example, summarized in the table below, can illustrate the issue. Assume in some geographical area for which we are examining the unemployment rate there are 950 workers and 50 unemployed individuals—meaning that the unemployment rate is 5% (i.e. the labor force equals $950+50=1,000$, so the unemployment rate is $50/1,000 = 5\%$). In a later period (i.e., Period 2 in the table), because of both economic growth and population growth, assume there are 1,008 workers and 42 unemployed individuals—meaning the unemployment rate has fallen to 4.0%. The labor force has increased from 1,000 to 1,050, while employment has risen from 950 to 1,008 and the number unemployed has fallen from 50 to 42.

Table 1

Period	1	2	3	4
Employed	950	1008	990	935
Unemployed	50	42	50	35
Labor Force	1,000	1,050	1,040	970
Unemployment Rate	5.0%	4.0%	4.8%	3.6%

¹ Zin, David, "Does a Lower Unemployment Rate Mean the Economy is Improving?", *Senate Fiscal Agency*, State Notes, Summer 2013.

Now consider an even later third period, in which there are now 990 workers and 50 unemployed workers, yielding an unemployment rate of 4.8%. The unemployment rate in the third period is higher than in the second period, but less than the first period, even though the number of unemployed individuals is the same as in the first period. Similarly, although the unemployment rate rose between the second and third periods, it did not rise as much as it would have if the labor force had remained the same size: the number of jobs fell by 18 yet the number unemployed only rose by eight. The 10 individuals who left the labor force in the third period prevented the unemployment rate from rising to 6.5%.

Finally, in a fourth period, employment declines to 935 and unemployment declines to 35. In this situation, unemployment has fallen but so has employment, reducing the size of the labor force to 970 and lowering the unemployment to 3.6%, the lowest rate of any of the periods. To emphasize the point, the fourth period exhibits both the lowest levels of employment and the lowest unemployment rate of any of the four periods. If the 80 individuals who left the labor force between periods two and four had remained in the labor force, but were unemployed, the unemployment rate in the fourth period instead would have been 11.0%.

This example also illustrates why more than the unemployment rate should be considered when assessing the health of the economy. If the 80 individuals who left the labor market between periods two and four represented individuals who grew too old to work or chose to retire, it might speak to demographic issues associated with the relative size of younger and older age cohorts. In this situation, the labor market would be healthy but the economy would face constraints because of practical limitations from the population at large. If, instead, the 80 individuals left the labor market because they were convinced there was no point in seeking work because they would not be employed, the economy would face very different constraints.

The labor force participation rate (LFPR) measures the percent of the noninstitutional civilian population comprised by the labor force. Before 1969, the LFPR rarely broke 60%, staying in a relatively narrow band between 58.1% and 60.2% (at a 59.2% average) between 1948 and 1968 (see Figure 1). Beginning in 1969, the LFPR began rising, primarily reflecting greater participation by women. The LFPR rose consistently, with minor pauses in the aftermaths of the 1979-82 and 1990-91 recessions, through 2000, when it reached a maximum of 67.3%. Labor force participation declined during the 2001 recession and continued to decline consistently through 2005 when it stabilized at about 66.0% until the 2008-09 recession. Between 2008 and 2015, the LFPR declined consistently, reaching 62.4% before stabilizing again at roughly 62.9% over the 2016-2019 period.

Figure 1



One part of the decline after the 2008-09 recession has been driven by aging baby boomers leaving the labor force. The Bureau of Labor Statistics (BLS) has estimated that the demographics of aging baby boomers will result in trend labor force participation rates falling to 61.0% by 2026². By 2028³, the BLS estimates that about ¼ of the US population will be age 65 or older, and older age groups have markedly lower labor force participation rates. The BLS projects these trends will continue for decades, with the LFPR reaching 57.0% by 2060⁴.

Changes in the Labor Market since COVID-19

Unlike previous recessions, in which labor force participation remained relatively stable, the COVID-19 pandemic not only lowered employment but lowered labor force participation rates. The LFPR fell from 63.3% in February 2020 to 60.2% in April 2020. By August 2020, the LFPR had recovered to 61.7%. Since August 2020, the LFPR has remained flat, averaging 61.5% over the August 2020-May 2021 period.

To some, changes of this magnitude might seem negligible. A 16.0% decline in employment, such as occurred between February 2020 and April 2020 sounds more substantial than the 3.1 percentage point decline in the LFPR, from 63.3% to 60.2% over the same period. However, because of the size of the labor force, small percentage point changes represent a

²Bureau of Labor Statistics, U.S. Department of Labor. “Labor force participation rates projected to decline over the next decade.” *TED: The Economics Daily*. November 1, 2017.

³ Dubina, Kevin S. Bureau of Labor Statistics, U.S. Department of Labor. “How Women And Aging Affect Trends In Labor Force Growth”, *Spotlight on Statistics*. July 2020

⁴ Bureau of Labor Statistics, U.S. Department of Labor. “A Look at the future of the U.S. labor force to 2060.” September 2019.



significant number of individuals. Based on the size of the civilian noninstitutional population, which totaled 261.2 million in May 2021, a 1.0 percentage point change in the LFPR translates to more than 2.6 million individuals no longer participating in the labor force: individuals that are no longer employed nor looking for work.

Since the emergence of the COVID-19 pandemic, the changes in labor force participation have varied across different demographic groups (see Figures 2a, 2b, and 2c). For the population as a whole, the decline in labor force participation caused the labor force to shrink by 2.14% between February 2020 and May 2021. Across racial groups, while declines were similar for both Whites (-2.46%) and Blacks/African Americans (-2.44%), the declines were less for those of Hispanic ethnicity (-1.89%) and much less for Asians (-0.56%). Over the period, the number of women in the labor force declined more (-2.33%) than for men (-1.96%). Differences across workers of different educational levels were more pronounced, with the labor force comprised of workers with less than a high school diploma falling 9.28%, compared to a 3.80% decline for those with a high school diploma but no college and a 3.52% decline for those with some college. The only demographic education group to show an increase in the size of the labor force between February 2020 and May 2021 was those with at least a bachelor's degree; for this group, the labor force increased 1.26%.

Figure 2a

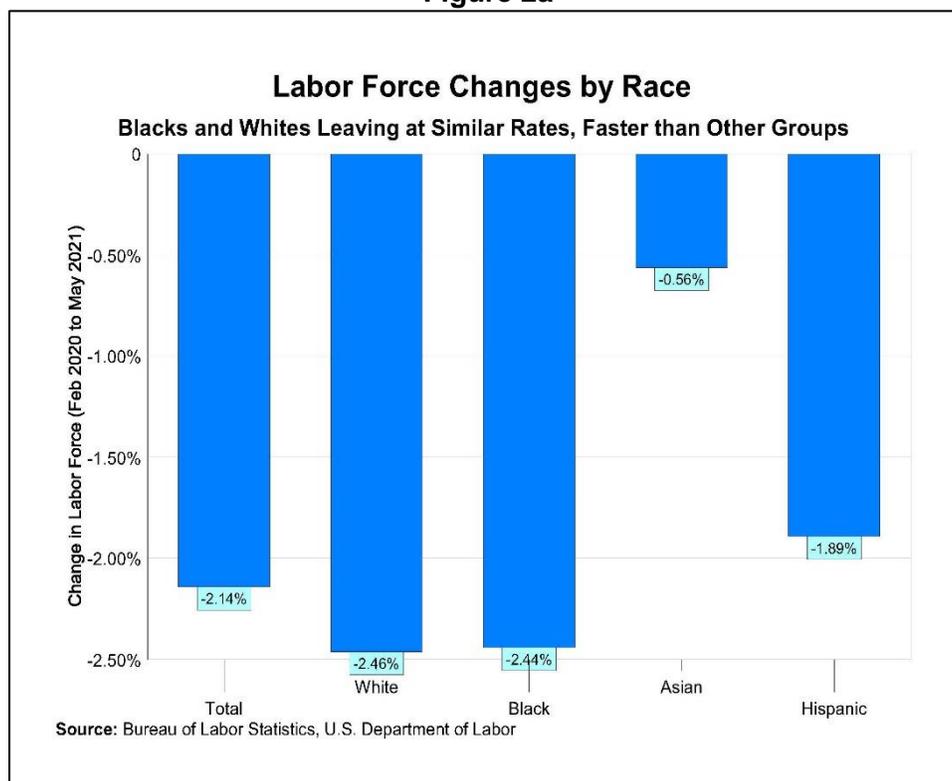


Figure 2b

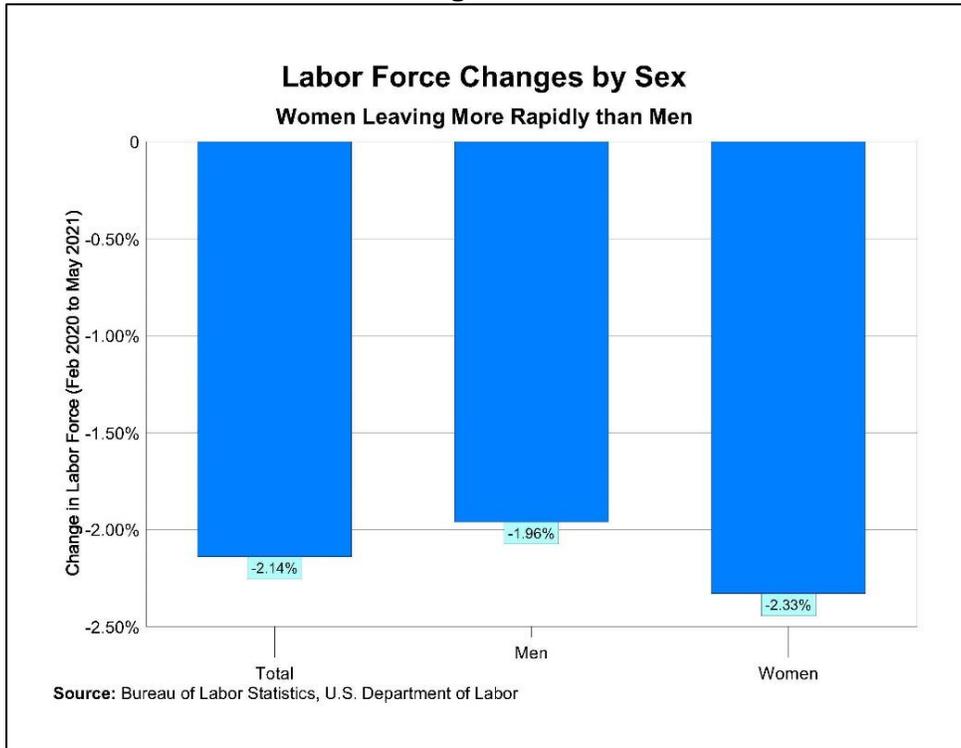
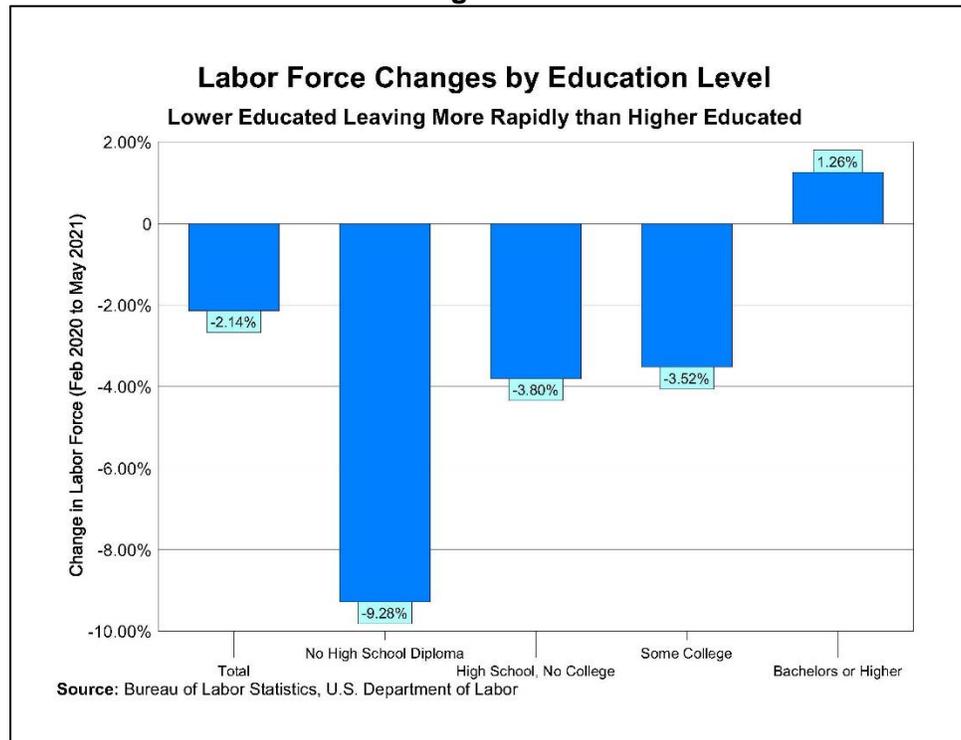


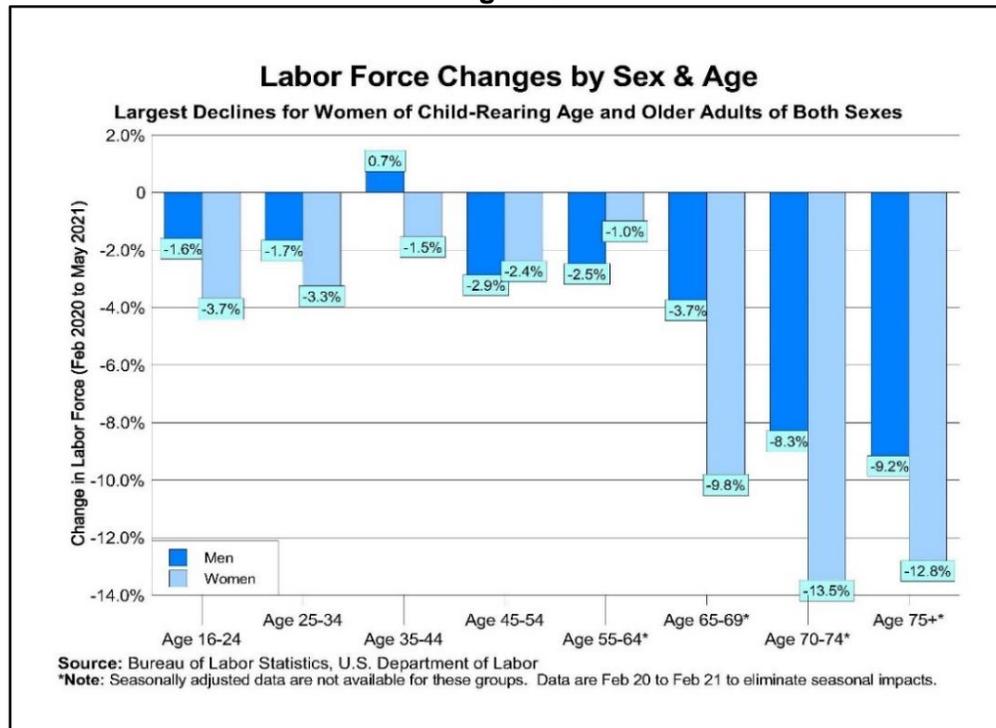
Figure 2c





When the labor force changes are broken down by sex and age, the differences between men and women become more pronounced, especially among women of child-rearing age and older women (see [Figure 3](#)). Generally, regardless of sex, labor force declines for younger individuals were less than those for older individuals. For both the age 16-24 and 25-34 cohorts, the decline in the labor force for women was roughly double the decline for men. For the age 35-44 age cohort, the labor force for men increased 0.7% compared to a 1.5% decline for women. Only for the age 45-54 and 55-64 cohorts was the percentage decline for women less than the percentage decline in the number of men. Because labor force data for those age 55 or older are not available on a seasonally adjusted basis for more detailed age segments, the data presented compare February 2020 with February 2021 in an effort to eliminate seasonality. The data indicate labor force declines for those age 65 and older were greater than for those age 55-64 and declines for women were between 1.4 and 2.6 times the magnitude of declines for men. For both men and women age 70 or older, the declines in the labor force were near or exceeded 10%.

Figure 3



The decision to participate in the labor force can be driven by a number of factors including perceptions of whether a job is available or attainable, to choices about work/nonwork balances, obligations to child care or elder care, retirement, health concerns, or the pursuit of training or education to change careers. In the context of COVID-19, many of these factors developed new considerations. For example, while parents with young children always face decisions about whether to stay home and care for them, those decisions may have been affected by circumstances such as school closings, remote work, or concerns about the children contracting or transmitting COVID-19. Similarly, older adults have always faced decisions about when (or if) to retire, and these decisions may have been affected by layoffs and/or the greater susceptibility older adults have exhibited to the more severe health effects of COVID-19. Furthermore, declines in labor force participation by older age groups,

particularly women age 65 or more, may reflect grandparents assuming child-care duties and thus mitigating reductions in labor force participation by adults in younger age groups.

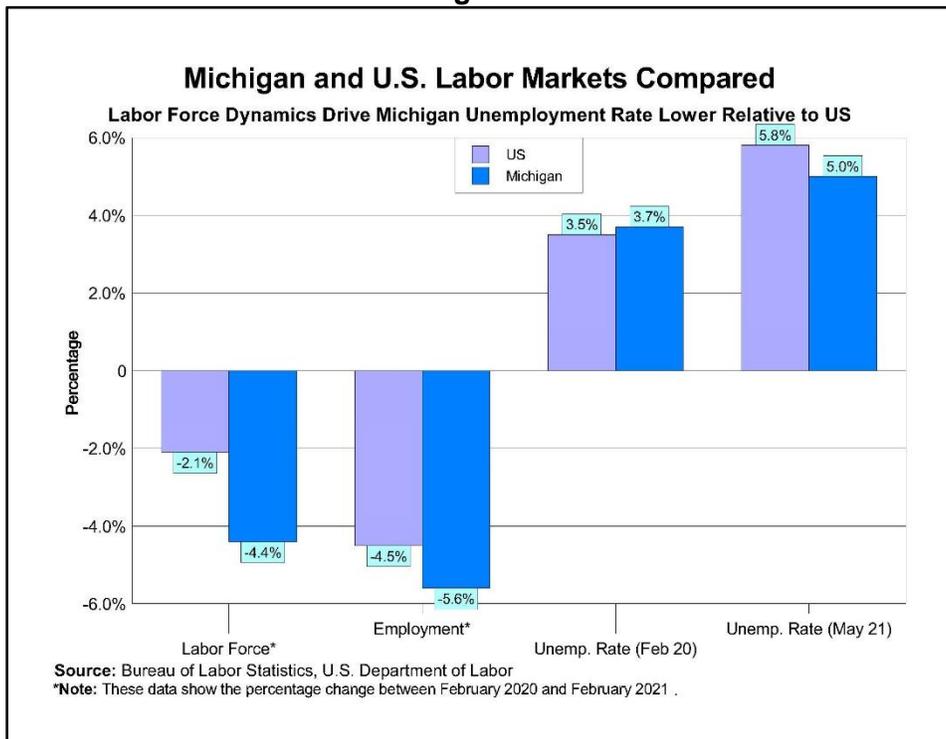
Even the nature of the job market has changed the availability and demand for different types of jobs. The establishment survey indicates that as of the first quarter of 2021, employment in the manufacturing sector had recovered to 95.7% of the level in February 2020, while employment in the leisure and hospitality sector had only recovered to 79.6% of the February 2020 level. In contrast, consumer spending on goods in the first quarter of 2021 was 13.2% above the level in the fourth quarter of 2019, while consumer spending on services still was 5.8% below the level in the fourth quarter of 2019. As a result, not only is output recovering more rapidly than employment—suggesting substantial gains in productivity—but the goods sector is recovering more rapidly than the services sector. Individuals' perceptions of the availability and attainability of employment are likely to be influenced by the fact that potential jobs may be in different sectors from which they were employed previously.

What's Happening in Michigan

On a statewide level, Michigan has mirrored many of the changes seen in the national data (see Figure 4). Nationally, the labor force participation rate declined from 63.3% in February 2020 to 61.6% in May 2021, while the Michigan LFPR declined from 61.6% to 58.9%. As with the national data, a percentage point change in the Michigan LFPR translates to a significant number of individuals, with a 1.0% drop in the LFPR representing approximately 80,000 individuals who are no longer working nor looking for work (roughly the equivalent of the total gain in Michigan employment over the two-year period from December 2017 to December 2019). Nationally, the labor force declined by 2.1% and employment fell by 4.5% between February 2020 and May 2021, while in Michigan the labor force declined by 4.6% and employment fell by 5.8%. As of the first quarter of 2021, manufacturing employment in Michigan had recovered to 92.7% of the February 2020 level, while service employment had only recovered to 74.5%. Unfortunately, much of the more detailed demographic data about the labor force that are available at the national level either are available only on an annual basis for Michigan or, in many cases, are not available at all. Similarly, much of the data that are available for Michigan on a monthly basis are not available on a seasonally adjusted basis. As a result, this section will discuss changes between February 2020 and February 2021 to eliminate seasonal effects.



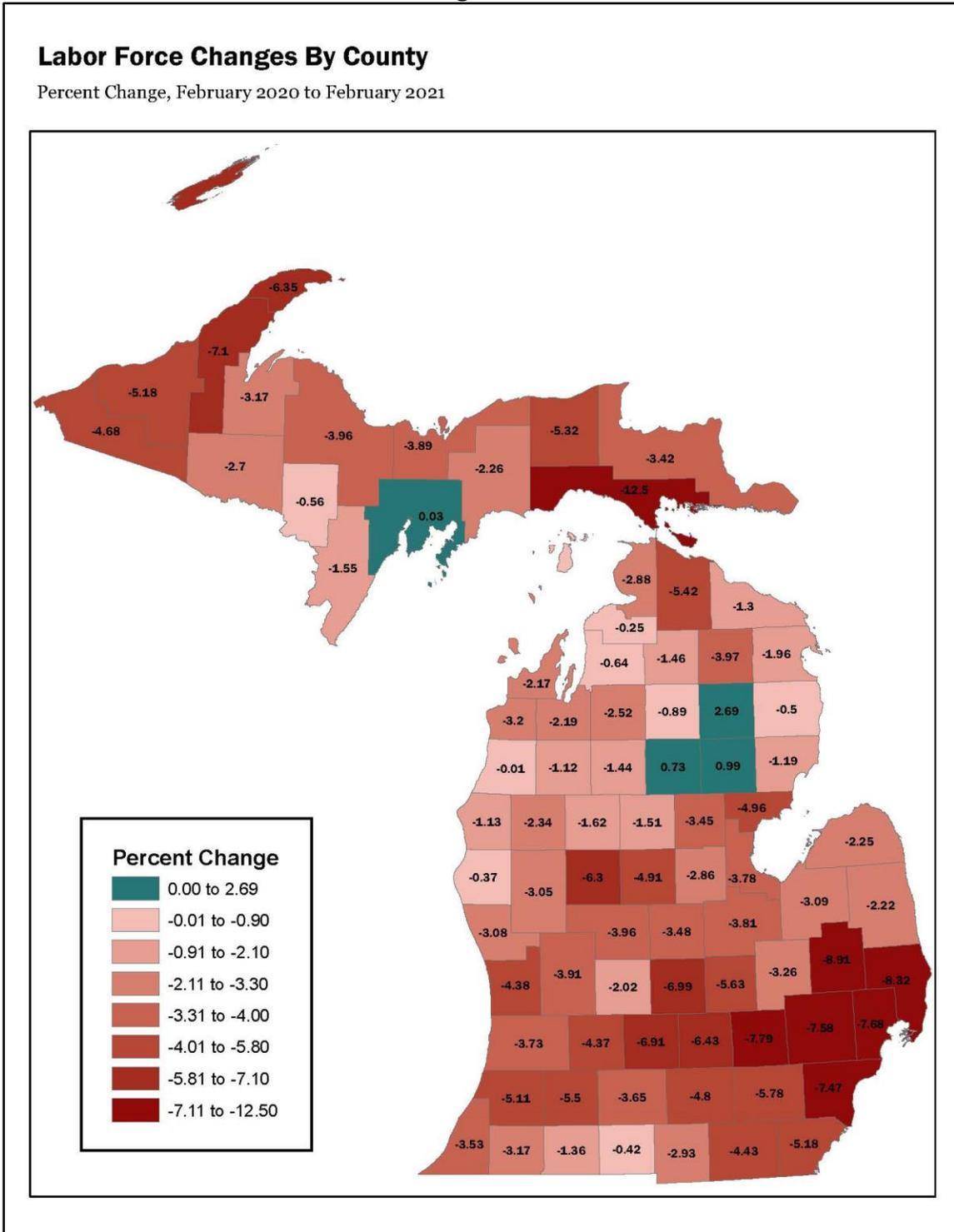
Figure 4



The statewide data obscure substantial variations between what has happened at the county or metropolitan area level (see Figure 5). For example, between February 2020 and February 2021, the labor force in Mackinac County fell by 12.5% (employment declined 12.4%) while the labor force in Oscoda County increased by 2.7% (employment increased by 1.0%). As a result, the unemployment rate stayed relatively unchanged in Mackinac County (where it fell from 17.5% to 17.4%) while in Oscoda County the unemployment rate rose from 7.1% to 8.6%. (Statewide the unemployment rate rose from 3.7% to 5.2%, the labor force declined by 4.6%, and employment fell by 5.8%.)

In an attempt to see if some of the same factors affecting labor force participation at the national level were relevant in Michigan, the Senate Fiscal Agency collected a wide variety of data available at the county level and performed a statistical analysis to see if the variations between counties and/or metropolitan areas in things like the share of the population age 65 or more, the share of the population comprised of women of child-rearing age, the share of employment in the manufacturing sector or leisure/hospitality sector, income levels, income growth, relative wage rates between manufacturing and leisure/hospitality, population density, prevalence of COVID-19 cases or deaths, labor force participation by older adults, etc. could explain the differences in the labor force declines between counties and metropolitan areas.

Figure 5



While this paper will not present the formal statistical results, it will discuss the results. Eventually two equations were developed: one for Michigan's 83 counties and one for Michigan's micropolitan and metropolitan areas.⁵ The county equation was able to explain approximately two-thirds of the variation in labor force changes across counties between February 2020 and February 2021, while the micro/metro area equation was able to explain almost three-fourths of the variation between areas. With one exception, which will be noted below, all variables were statistically significant at the 98% or greater confidence level.⁶

Counties

For counties, the best equation included two "dummy" variables to account for five counties that differed significantly from the average—likely as a result of factors not captured by the available variables. One dummy variable was inserted for Mackinac County, which displayed a significantly outsized labor force decline, while another dummy variable was included for the four counties where the labor force increased—an atypical result when compared to other counties with similar values on the other variables.

The other variables that were significant at explaining variations in labor force declines between counties included:

- 1) Overall population density.
- 2) Population density in the rural portion of the county.
- 3) The share of the population age 13 or younger.
- 4) The share of the population age 65 or older.
- 5) The labor force participation rate for those age 75 or more in 2019.
- 6) The average wage in the leisure and hospitality sector during 2019.
- 7) The share of total payroll employment comprised of workers in the accommodation and food services sectors.

While other variables, such as the share of payroll employment comprised of workers in the manufacturing sector, or per person income during 2019, average wages in the manufacturing sector, the ratio of average wages in leisure/hospitality to manufacturing wages, and prevalence of COVID-19 cases or deaths were examined, these variables either failed to be significant at relevant levels and/or failed to add to the explanatory power of the equation.

Two important considerations to keep in mind in the discussion of the regression results are that: 1) while ideally the regressions might identify causality, ultimately the analysis truly only identifies correlation, and 2) failure of a variable to be statistically significant does not imply there is no correlation or causality, only that for the data as a whole it is not clear that the average effect is statistically different from zero. Obviously, for specific individuals or even

⁵ Micropolitan areas are similar to metropolitan areas in that they represent a recognized population center, or nucleus, where adjacent communities have a high degree of integration with the nucleus. The primary difference between the two concepts is that metropolitan areas contain at least one nucleus with a population of 50,000 or more, while micropolitan areas contain cores with populations between 10,000 and 50,000.

⁶ In statistical analysis, analysts are able to provide a level of confidence associated with their results, such as if the relationship between two economic variables differs from zero. In this case, the statistical analysis indicated 98% confidence that the relationship between the listed variables and the percentage decline in the labor force was not equal to zero.

specific counties or communities within a county, some of the variables that ultimately were not included could be relevant factors. But on a statewide level, across all counties and communities, the effects of these variables could not be distinguished from the effects of any omitted variables (perhaps because no data were available) or did not have a strong enough relationship overall to be statistically certain the impact was not effectively zero.

The county equation indicates that, as one might expect, both density variables were associated with greater declines in labor force participation. The initial intuition might be that in more densely populated areas individuals would perceive a greater risk of contracting COVID-19 and thus would be more likely to leave the labor force to minimize their exposure. However, these variables offered greater explanatory power than the actual prevalence of COVID-19 cases or deaths, even though COVID-19 was more prevalent in more densely populated areas. One possible explanation is that the actual incidence of COVID-19 might not be strongly enough related to individuals' fears of contracting or transmitting the virus. As a result, while more densely populated areas did indeed exhibit higher rates of COVID-19 infections and deaths, they also represented areas where individuals were more worried about COVID-19 and individuals' responses to those worries were more related to labor force participation than the actual contagion rates (for example, if enough individuals were worried about contagion/left the labor force, it might reduce the prevalence of COVID-19 in the area).

Additionally, the variables for the share of accommodations/food service (AFS) employment and the average wage in the leisure/hospitality sector in 2019 were significant and of the anticipated sign. Areas with a greater share of employment comprised of AFS employment experienced greater percentage reductions in the labor force than areas with a smaller share of AFS employment. In areas with greater reliance on AFS employment, there would be both fewer alternative employers in other sectors (limiting the ability for a laid-off worker to find alternative employment) and a greater percentage of businesses affected by the declines in economic activity experienced by these sectors (including both direct effects and indirect effects on other businesses in the area). For the average wage variable, the relationship between labor force participation and wages was negative. If an area exhibited higher wages, it would suggest a more difficult tradeoff for an individual to elect to leave the labor force. At lower wage levels, individuals presumably would be more likely to conclude that daycare needs, the timeliness of retirement, or health concerns outweigh the earnings from employment.

One variable that was significant only at the 89% level was labor force participation by those age 75 or more in 2019. As expected, this variable exhibited a strong positive relationship; the greater labor force participation by those age 75 and older the larger the decline in the labor force. This result likely reflects a combination of health concerns related to COVID-19 combined with the perceived desirability of working at such an age.

Two variables had significant relationships that were the opposite of the anticipated direction: the share of population age 13 and less, and the share of population age 65 or more. The share of the population comprised of children age 13 and younger exhibited a strong negative relationship with labor force declines. This variable essentially represents the population that would need adult care if daycares and/or schools were closed. To the extent parents were worried about their children contracting or transmitting COVID-19, the variable also would represent locations where there could be a greater share of parents who would need to stay home to care for their children even if daycares and/or schools were opened. As such, one would expect a strong positive relationship, not a negative relationship. An alternative variable

that would capture some of the same demographic, the percent of population comprised of women age 15-44 (essentially child-bearing age), failed to be statistically significant. As a result, in contrast to what appears in the national data, the story of a parent (often female) leaving the labor force to care for children at home appears to be less evident in Michigan. The statistically insignificant relationship for women of child-bearing age and the negative relationship between the age 13 and less population perhaps suggests that the income needs of raising a family dominated other concerns or needs for many individuals. The reasoning is offered here as one possible explanation for the observed relationship between the variables. A wide variety of alternative explanation also could be offered, including differences in family sizes between urban and rural areas, or between income levels, or in pre-existing labor force participation rates among individuals with younger children. However, to be certain of any these conclusions, additional study should be pursued to address specific questions in more depth.

Similarly, the share of population age 65 or more exhibited a strong negative relationship with the change in labor force participation. Areas with a greater share of older adults exhibited smaller declines in the labor force. Explanations for this result are more difficult, especially in the context of the mostly significant (and positive) relationship with the labor force participation rate for those age 75 or more. Effects that could underly the relationship might include the employment share related to nursing home care or provision of services to the elderly (which would have been services less likely to be reduced/experience layoffs as a result of COVID-19), or that consumption spending by the elderly was more likely to be "necessary" spending rather than elective spending that could be deferred, thus providing greater support to the underlying economy. These types of economic patterns, or similar "anchoring" types of effects associated with a larger population share comprised of the elderly (as opposed to the portion of that population participating in the labor force), appear to be the most likely explanation to reconcile the two relationships. As with the national data, older adults were more likely to leave the labor force, but that created both openings for younger workers and the larger population base of older adults also created demands on economic activity that were less likely to be scaled back as a result of COVID-19.

Metropolitan/Micropolitan Areas

Initially, the county equation was applied to Michigan's metropolitan and micropolitan areas. That equation offered almost no explanatory power in accounting for differences between the areas. One of the driving dynamics behind that result is that the metropolitan areas are more similar to each other than are counties. As a result, the metropolitan area equation resulted in different variables being relevant. Ironically, inclusion of some of the metropolitan area variables failed to produce significant results in the county equation because the differences between counties overwhelmed the differences between metropolitan areas. The variables in the county equation also included two dummy variables: one for the Houghton micropolitan area, which (like Mackinac County) had a disproportionately large decline in the labor force, and another to distinguish micropolitan areas from the larger metropolitan areas. Micropolitan areas exhibited a roughly 1.2 percentage point smaller decline in the labor force than metropolitan areas, all other factors held equal. The other variables in the metropolitan area equation included:

- 1) COVID-19 cases as a share of the population.
- 2) The share of the population age 65 or older.
- 3) The labor force participation rate for those ages 65-74 in 2019.
- 4) Gross domestic product (GDP) for the area in 2019.
- 5) The growth rate in real GDP in 2019.

Many of the variables in the metropolitan equation yielded unexpected relationships, highlighting the caveats above regarding what regressions can determine in terms of causality and correlation. For variables that did produce the expected relationship, GDP in 2019 proved a better proxy than population density. Essentially, the greater the value of output in the area during 2019, the greater the decline in the labor force between February 2020 and February 2021. Whether this relationship reflects difficulties with the metropolitan area density values failing to capture the same dynamic discussed with the county equation or that perhaps wealthier areas were in a better economic position to weather leaving the labor force is unclear.

In the vein of the wage variable in the county equation, there was a negative relationship between the growth rate in real GDP in an area and the decline in the labor force: areas where real GDP rose during 2019 were more likely to exhibit small declines in the labor force. This suggests that areas where output was increasing were more likely to offer alternative employment opportunities for individuals who faced layoffs as a result of COVID-19.

Like with the county equation, the share of the population age 65 and older exhibited a negative relationship with the decline in the labor force. The possible explanations for this relationship were offered above. However, unlike the county equation, the LFPR for those age 65-74 was negatively related to declines in the labor force. One possible explanation is that the demands and costs for elderly individuals living in metropolitan areas means that those who are working do not view retirement as a viable alternative; they cannot afford to lose the income. As with the county equation and the relationship with the population of younger children, adequately explaining this relationship would require additional research.

Finally, the relationship with COVID-19 cases and labor force declines was strongly negative. While the initial expectation had been that if COVID-19 were more prevalent in an area, it would discourage workers from participating in the labor force, the result suggests the point mentioned above that regressions hope to discover causality, but ultimately discover correlation. The strong negative relationship suggests that the causality in this case runs the other direction: in metropolitan areas where the labor force declined less, there was a greater incidence of COVID-19.

Conclusion

At the national level, the COVID-19 pandemic has resulted in substantial employment declines. These employment declines have not resulted in a significant rise in the unemployment rate because many individuals have left the labor force; they are no longer working, nor are they seeking work. Demographic analysis of the labor force declines indicates the individuals exiting the labor force have been dominated by younger women, older adults, and those with lower levels of education. Each of these groups suggests a different set of explanations for why the declines have occurred: younger women staying home to care for young children, older adults exiting the labor force due to health concerns outweighing other considerations, and lower educated individuals representing industries heavily affected by COVID-19 and/or providing insufficient wages to offset other concerns that affect the choice to join or exit the labor force.



Michigan has mirrored the economic changes observed nationally, with significant employment declines but a limited increase in the unemployment rate due to many individuals leaving the labor force. Data are not available to examine the demographic composition of Michigan's labor force changes. This article suggests many of the same factors affecting labor force participation nationally are at play, but that the story is more complicated. Changes in labor force participation have been more dominated by income concerns and a rural/urban split than suggested by the aggregate national data and those concerns have often worked in the opposite direction of the factors driving labor force participation at the national level.

As annual data on Michigan's labor force become available for 2020 and 2021, it may be possible to reconsider the factors affecting Michigan's labor force, although the data inevitably will omit any transitory effects or detail that might be gained by data with greater frequency. However, the data examined for this article suggest that, moving forward, the Michigan labor force may face three significant challenges: 1) generating wage growth, especially in industries significantly affected by COVID-19; 2) improving economic diversification, both across industries and for workers seeking labor mobility across sectors; and 3) addressing issues relating to an aging labor force, which may be splitting between older workers who cannot afford to stop working and those who may have been incentivized by COVID-19 to permanently leave the labor force earlier than otherwise would have occurred. The latter two issues have been long-standing concerns for the Michigan economy and the COVID-19 pandemic has simply highlighted their importance.