

# The Labor Force Participation Rate, Explained

May 05, 2023

By [Kaitlyn Hoevelmann](#)

*This post, originally published Aug. 18, 2020, has been updated with more recent information.*

The unemployment rate is perhaps the most well-known measure of the labor market's performance. But another important labor market statistic is the labor force participation rate.

## What Is the Labor Force Participation Rate?

The Bureau of Labor Statistics (BLS), a federal agency that measures labor market activity, working conditions, price changes and productivity, defines the labor force participation (LFP) rate as the number of people who are either working or actively seeking work as a share of the working age population. The working age population consists of people 16 years and over. More broadly, the LFP rate can be defined as the percentage of the population that is in the labor force.

Let's take a more in-depth look at what goes into measuring the labor force and the labor force participation rate, and how they relate to the unemployment rate. We'll also look at the effect labor force participation has on the economy.

## Who Is Included in the Labor Force?

The labor force is made up of those who are employed and those who are unemployed. The BLS [explains what these two categories mean](#):

- **The employed:** People with jobs are considered employed. Their jobs can be part-time, full-time, temporary or year-round.
- **The unemployed:** People who are jobless, have looked for a job in the past four weeks and are available for work are considered unemployed.

## Who Is Not Included in the Labor Force?

Looking at the components of the labor force, it makes sense that people who are neither employed nor unemployed are not a part of it.

For example, someone who would like to work but has given up looking for a job is not considered unemployed and is therefore [not part of the labor force](#). A person in this situation is referred to as a discouraged worker.

Many people who are not in the labor force are either students or retirees. Family responsibilities can also keep people out of the workforce: For instance, though a stay-at-home parent might be working very hard

raising children, that person is counted differently in the statistics and would not be part of the labor force.

### **The Labor Force Participation Rate vs. the Unemployment Rate**

The BLS also explains the difference between the [labor force participation rate and the unemployment rate](#).

While the LFP rate takes into account the entire working age population, the national unemployment rate focuses only on the people in the workforce. It reflects the number of unemployed people as a percentage of the labor force.

To sum up:

- The labor force participation rate refers to the percentage of people age 16 and older who are in the labor force.
- The [unemployment rate](#) refers to the percentage of people in the labor force who don't have jobs but are actively seeking work.

### **Factors Affecting Labor Force Participation**

Many factors can impact the LFP rate, including demographic and economic trends.

The U.S. labor force participation rate in March 2023 was nearly five percentage points lower than it was in March 2000. The rate's decline has been a hot topic in economics in recent years.

NOTES: This chart from economic database FRED shows that the labor force participation rate declined from peaks of about 67% in the late 1990s and early 2000s.

Demographics can help explain the general decline in the LFP rate since the early 2000s, according to an [October 2016 Regional Economist](#) article. The authors are Paulina Restrepo-Echavarria, a senior economist at the St. Louis Fed, and Maria Arias, then a senior research associate and now a software engineering manager at the Bank.

The researchers looked at how the composition of the labor force has changed over the past few decades and how those changes affect the LFP rate. They discussed demographic trends that have put downward pressure on the LFP rate starting in the early 2000s, including:

- The aging workforce, with the baby boomer generation beginning to retire
- An increase in educational attainment, which implies that people are spending more time in school and starting their careers later in life

The state of the economy can also affect the LFP rate. For instance, the COVID-19 pandemic initially caused it to decline. In February 2020, the LFP rate was 63.3%. By April that year, it had dropped to 60.1%, and rose after that.

In the few years prior to the pandemic, however, the overall labor force participation rate had been increasing. The U.S. was experiencing strong labor market conditions during that period, as discussed in the Federal Reserve's [Monetary Policy Report from February 2020](#). (During the pandemic, the [unemployment rate](#) also hit lows not seen in 50 years.)

The Monetary Policy Report also noted that the labor force participation rate for "prime age" adults, those who are 25-54 years old, had been rising in recent years. The LFP rate for this group gives a look at trends that are less sensitive to demographic effects because retirement age adults aren't included.

## Labor Force Participation Rate for Prime Age Adults Trended Up before the COVID-19 Pandemic

NOTES: This chart from economic database FRED shows that the labor force participation rate for adults ages 25-54 trended up in the four years before the COVID-19 pandemic. It was at about 83% before declining when the major economic impact of the pandemic hit in the second quarter of 2020. As of early 2023, it had once again risen to about 83%.

## The Effect of the LFP Rate on the Economy

A decline in the number of people participating in the labor force can have a negative impact on the overall economy.

According to [research published by the Federal Reserve Bank of Philadelphia in 2017](#), a falling LFP rate can slow the growth of GDP, since “fewer people are contributing to the nation’s output of goods and services.” Additionally, a lower participation rate can lead to higher tax rates, since the government has a narrower tax base from which to draw revenue, the authors noted.

The labor force participation rate is one of many important statistics to look at when examining the overall health of the labor market. Understanding the factors affecting the rate can also help in understanding the potential impact of LFP trends on the economy as a whole.

*Sharon Van Stratton contributed updates to this blog post.*

## Additional Resources

- Open Vault: [Different Measures of Unemployment: Is There Just One Number to Watch?](#)
- Page One Economics: [Making Sense of Employment Data](#)

## About the Author

### Kaitlyn Hoevelmann

Kaitlyn Hoevelmann was a Public Affairs writer at the St. Louis Fed.