New Mexico Labor Force Participation: 
Examining the Factors Underlying Recent Trends
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For August 2015, the U.S. seasonally adjusted civilian labor force participation rate—the share of working-age residents supplying labor to the economy—remained at a nearly four-decade low of 62.6 percent. The rate increased rapidly from less than 59 percent in the mid-1960s to nearly 67 percent in early 1990, before flattening to a series high of 67.3 percent for January through April 2000. It then began a downward trend (interrupted by another leveling between 2005 and 2008) that accelerated in late 2008, as effects of the Great Recession took hold. This recent decline in labor force participation has been widely debated, with much of the discussion centered on the relative impacts of cyclical and structural forces. To identify and assess specific causes of the labor force participation rate decline, Dr. Shigeru Fujita, a senior economist at the Federal Reserve Bank of Philadelphia, constructed a reason-for-nonparticipation variable, based on monthly estimates from the Current Population Survey (CPS), also known as the household survey, for use in an illuminating research paper published last year (On the Causes and Declines in the Labor Force Participation Rate, https://www.philadelphiafed.org/-/media/research-and-data/publications/research-rap/2014/on-the-causes-of-declines-in-the-labor-force-participation-rate.pdf?la=en). The analysis below applies Dr. Fujita’s methodology to New Mexico CPS estimates and highlights recent trends in statewide labor force participation.

New Mexico Participation and Unemployment Rates

Chart 1 presents CPS 12-month moving averages for New Mexico’s labor force participation rate and unemployment rate. These data vary significantly from the official series and are intended solely to provide context for the analysis that follows. Participation rates ranged between 62.3 percent and 64.8 percent for the seven years preceding the Great Recession, while the unemployment rate during the period initially increased from 4.9 percent for December 2000 to a peak of 6.5 percent for January 2004, before falling to a low of 3.6 percent for November 2007. During the recession and in its immediate aftermath, the two measures underwent dramatic changes. The labor force participation rate dipped to 58.5 percent for December 2011, increased to 59.8 percent for April 2013, and then fell to a low of 57.0 percent for July and August 2014, before finally turning upward again. The CPS 12-month moving-average unemployment rate peaked at 8.6 percent for November 2010, fell to 7.0 percent for February 2013, and then gradually increased to 7.4 percent for August and September 2014, before slipping lower. Data for August 2015 show labor force participation rising to 58.0 percent, a nearly two-year high, pushing the unemployment rate to 6.7 percent, up 0.2 percentage point from March and April 2015 levels that were the lowest since August 2009.

Dr. Fujita, in his analysis of national data, noted that one common explanation for coinciding declines in participation not match (and often differ substantially from) official Bureau of Labor Statistics estimates, which are produced with statistical models—incorporating CPS and other input data—developed by the Local Area Unemployment Statistics (LAUS) program. The inclusion of lagged months in the 12-month averages reduces the precision in comparing series values with recession start and end dates. Detailed information on the uses and limitations of subnational CPS data is available at http://www.bls.gov/gps/notescps.htm.

Chart 1: New Mexico Labor Force Participation and Unemployment Rates, 12-Month Moving Average, December 2000–August 2015

Sources: Current Population Survey microdata and author’s calculations
Note: Shaded areas denote National Bureau of Economic Research recession dates.
and unemployment rates, such as those also seen in New Mexico for parts of the post-recession period, is that some of the unemployed became discouraged over job prospects and dropped out of the labor force. He further explained, however, that because labor force participation rates had already begun decreasing prior to the recession's onset, the subsequent decline was likely due to both long-run factors and recent business-cycle conditions. CPS microdata on reasons for nonparticipation provide a means for identifying the factors underlying recent changes and evaluating their impacts.

Reasons for Nonparticipation

The monthly CPS contains questions to determine employment status for the civilian noninstitutional population aged 16 years and over, with individuals classified as employed, unemployed, or not in the labor force (also called nonparticipants). The three broad categories for labor force nonparticipation are retired, disabled, and other. As noted in the Fujita analysis, the CPS applies a strict definition for disability, excluding conditions expected to last less than six months and requiring that a disability prevent the person from doing any type of work—not just the type he or she had been performing prior to the disability’s onset. A large component of the “other” category is students attending school.

Chart 2 displays the working-age population percentages represented by the three nonparticipation categories. The sum of the shares, therefore, equals the total percentage for those not in the labor force. For August 2015, 19.0 percent of New Mexico’s working-age population was out of the labor force because of retirement, 5.9 percent because of disability, and 17.1 percent for other reasons. Prior to the most recent downturn, the share for nonparticipation due to retirement initially drifted lower and then back higher than the share for nonparticipation due to other reasons. The two series closely tracked one another from mid-2008 through early 2012, each rising about two percentage points, at which time the “other” share fell and then leveled off as the “retired” share continued to rise. Shares for both categories began trending downward in early 2015, as total nonparticipation edged lower. The share for nonparticipation due to disability moved within a fairly narrow range from the beginning of the reference period through the end of 2008, when it began a climb of 1.4 percentage points over the next year. After peaking at 6.3 percent for both December 2009 and January 2010, the “disability” share slowly declined by a full percentage point over the next two years, before inching back upward to near 6 percent for recent months.

The same series are presented in Chart 3, this time showing the cumulative differences for each from its level in January 2006 (when the CPS 12-month average labor force participation rate peaked at 64.8 percent), highlighting their respective contributions to the subsequent rise in total nonparticipation. Most striking here is that the share for nonparticipation due to retirement accounted for the entire increase immediately prior to the Great Recession’s onset and nearly all of it during the downturn, though the series’ trajectory reversed in late 2007. Dr. Fujita, in describing the timing of baby boomer retirements and their impact on the national data, said this: “A plausible conjecture is that the 2008 financial crisis and associated loss of wealth might have had the effect of delaying their retirement age, while the subsequent recovery of financial wealth has allowed more of them to retire in the past few years. Although further careful analysis would be required to verify this conjecture, it highlights the difficulty of separating ‘cyclical’ from ‘structural’ forces in the sense that the wave of the retirements, which creates a downward trend in the participation rate, is also affected by cyclical forces.” Although the lagged periods contained in the statewide 12-month moving averages make it difficult to associate specific estimates with point-in-time labor market activity, the New Mexico nonparticipation data exhibit a trend also consistent with the “delayed retirement” explanation. Between January 2009 and August 2014, months corresponding with recent low and high values for not in the labor force as a share of working-age population, the increase in nonparticipation due to retirement accounted for about 61 percent of the total gain.

Want a Job Versus Do Not Want a Job

The “other” category can be further divided into those who want
Dr. Fujita classifies as discouraged workers all those who want a job but are not actively seeking one, regardless of the reason or previous job-search history. The BLS threshold is much higher, defining discouraged workers as “persons not in the labor force who want and are available for a job and who have looked for work sometime in the past 12 months (or since the end of their last job if they held one within the past 12 months), but who are not currently looking because they believe there are no jobs available or there are none for which they would qualify.” The more inclusive approach is useful for nonparticipation analysis because, as noted in the Fujita study, national data suggest the possibility that people may switch their answers between economic and noneconomic reasons at different stages of the business cycle, and the goal here is to identify all persons who expressed a desire to work but were not currently counted in the official unemployment estimate.

Chart 4 plots 12-month moving averages for the “other” nonparticipation category, based on whether the person, at the time of the survey, wanted or did not want a job. As indicated by their respective shares of the total working-age population, most of those classified in the “other” category, many of whom reported as attending school, did not want a job. The share for this group held fairly steady at just over 13 percent of the working-age population immediately prior to the start of the Great Recession. The “want a job” category, meanwhile, here representing discouraged workers broadly defined, fell from around 2.5 percent to just under 2 percent. Nonparticipation, as noted previously, increased sharply for the “other” group immediately following the recent downturn, with level shifts present in the data for both the “want a job” and “do not want a job” components.
Chart 5 shows cumulative differences for the “want a job” and “do not want a job” categories, again using the 12 months ending in January 2006 as the reference period. Because of the small CPS sample size for New Mexico, cross-tabulations of data can produce highly variable estimates, particularly at this level of detail and even when using 12-month moving averages, as reflected in the two series here. The general trend is revealing, however, for the discouraged worker component, which, after earlier subtracting from the overall increase in labor force participation, during the past five years has generally added to it. For recent months, in fact, the gap in cumulative difference between those that want a job and those who don’t, relative to January 2006, narrowed sharply to about half a percentage point for August 2015, despite the fact that discouraged workers represent a small portion of the “other” category. The large dip in the “don’t want a job” series during 2012 and 2013 coincides with a period of elevated CPS employment, which affected estimates for this subgroup more than those for any other segment in the nonparticipation numbers.

**Summary of Findings**

The CPS was not designed for the type of analysis presented in this article, and focusing the research on two variables—identifying the reason for nonparticipation and desire for work—creates some cross-tabulation overlapping that the Fujita paper explains in detail. Despite limitations, however, the data provide insight not available elsewhere on labor force participation and nonparticipation dynamics. Among the findings in the New Mexico analysis is that nonparticipation due to retirement was the primary factor in statewide labor force participation rate changes after early 2012, with worker discouragement, as defined herein, an important but far less significant component. The participation rate, based on 12-month moving averages, gradually increased over the past year to its highest level since late 2013, with nonparticipation due to retirement edging downward. Nonparticipation numbers moved generally sideways for both the “other” and “disabled” categories. The CPS 12-month moving-average unemployment rate, after a period of rapid decline, recently ticked up slightly.

Moving forward, more robust job growth in New Mexico will likely prompt at least some in the recently growing discouraged worker pool (and the “do not want a job” category, because reported status often changes over time) to reenter the labor force, possibly increasing labor force participation and exerting upward pressure on the unemployment rate as labor markets adjust. However, any such impacts will also depend on future trends in nonparticipation due to retirement and, to a lesser extent, disability. The Fujita study closes with this summary of the cyclical versus structural debate: “Several studies try to separate ‘cyclical’ factors from ‘structural’ factors when explaining the behavior of the participation rate. However, the foregoing analysis casts some doubt on the usefulness of such labeling. For example, the label ‘cyclical’ often implies—whether implicitly or explicitly—that declines in the participation rate explained by ‘cyclical’ factors will reverse as the economy improves. However, this presumption may not hold. In particular, the decision to retire is clearly affected by cyclical factors, but this decision is unlikely to be reversed.”