

Explaining Alabama’s Labor Force Participation Rate

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Executive Summary

- Alabama has approximately 42,000 prime working age individuals sitting out of the labor force that would like to join the labor force.
- Alabama has approximately 1.7 million people sitting out of the labor force; however, the majority of these people are retirees, students, or people that are otherwise voluntarily sitting out.
- Alabama’s situation is not unique. The rest of the Southeastern United States has similar labor force demographics.
- If Alabama were to add the 42,000 prime working age individuals sitting out of the labor force into the labor force, its labor force participation rate would only move from 57.2% to 58.3%.
- This suggests that Alabama’s “low” LFPR is a structural result of Alabama’s demographic mix, low cost of living, and cultural norms, rather than a crisis of labor being left on the sidelines.

What is the Labor Force Participation Rate?

The labor force participation rate, or LFPR, is simply the percentage of the civilian noninstitutional population 16 years and older that is economically active.¹ Economically active means that a person either has a job and is employed or is actively looking for a job and is unemployed. Thus, those who are not employed nor looking to be employed are considered to be not participating in the labor force.

¹Noninstitutional is defined as those who do not live in an institution (e.g., prisons, mental facilities, or nursing homes) or are not on active duty in the U.S. Armed Forces.

LFPR is a useful measure for quickly determining the relative amount of labor resources available for production in a given area; however, there are several interpretational drawbacks that make LFPR a tool that should be used with caution. First, the broad definition of LFPR makes it such that retired individuals are considered to be out of the labor force, which skews LFPR downward for localities with higher proportions of retired individuals. Students over the age of 16 that don't hold a job also are counted as not participating, and discouraged workers that stop seeking a job move from the "unemployed" category to out of the labor force, further dragging the figure downwards. Moreover, regions with different cultural norms and trends surrounding household formation are likely to have skewed LFPR numbers. For example, a region that has more voluntary stay-at-home spouses will have a lower LFPR.²

This leads to the conclusion that a "high" or "low" LFPR is not necessarily "good" or "bad." In fact, there is not a consistent correlation between LFPR and GDP per capita.³ Rather, it suggests that the important questions are: who are the people not participating in the labor force? Are they not participating voluntarily? What percentage would join the labor force if the right opportunity presented itself?

Explaining Alabama's LFPR

Much has been made of Alabama's low LFPR compared to the rest of the United States. Alabama had a LFPR of 57.2% in 2023, which ranks it 47th out of 50 states. Without added context, this number seems discouraging. Using what we know about the pitfalls of LFPR and demographic data collected by the Bureau of Labor Statistics, we can determine exactly who is not participating in the labor force in Alabama.

Alabama's non-institutional population over the age of 16 is 4,033,000. 2,308,000 of those individuals are participating in the labor force, hence the rate of 57.2%. That leaves 1,725,000 individuals not participating (See Figure 1). Let's now begin to whittle this number down to get at how many individuals could potentially be brought into the labor force.

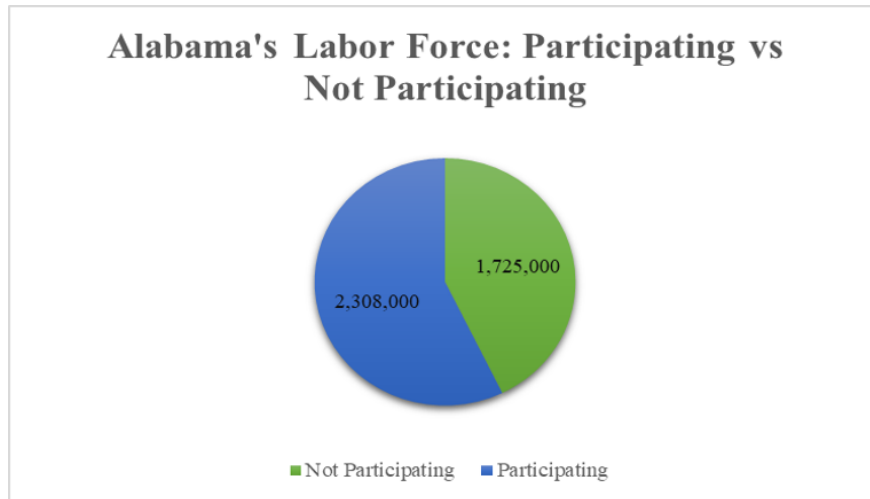
First, let's narrow down the scope of our analysis to those in what the BLS calls "Prime-Working Age," which are individuals between 25 and 54 years old. This is standard practice, as it factors out most of the statistical issues caused by student and retiree populations. Alabama has a non-institutional population of 1,901,000 people in that age range. Of those people, 1,492,000 are participating in the labor force, leaving 409,000 on the sidelines (See Figure 2). This figure factors out almost all retirees and young people who are completing their studies in high school or college. Notably, high school and college students above the age of 16 are considered to be part of the non-institutional civilian population, and they are much less likely to be participating in the labor force, as they are completing a degree

²As of 2021, Alabama is 5th in the nation in households with a stay-at-home parent, with 3.2% of households in the state having a stay-at-home parent (Delfino, 2021). For perspective, Mississippi is 1st, with 6.5% of households having a stay-at-home parent.

³By way of example, there are less developed countries like Angola (\$2,334 GDP per capita) and Bolivia (\$3,169 GDP per capita) with LFPR's of 89.1% and 78.4% respectively, which are both far higher than the United States which sits at a 62.7% LFPR; however, the US sits at a GDP per capita of \$65,020. Since 2001, US LFPR has declined from 67.1% to 62.7%, all while its real GDP per capita has increased by a cumulative 38.8% (Trading Economics, 2024).

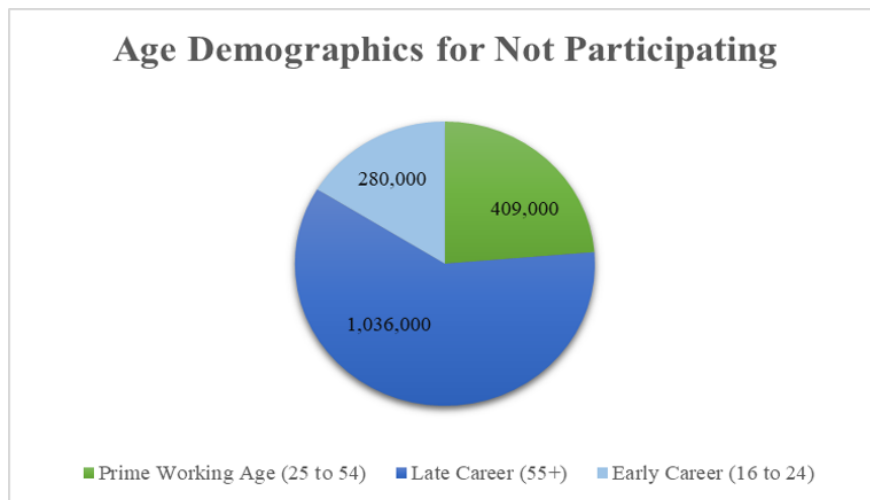
of some kind, so we exclude the 16- to 24-year-old age bracket from our analysis for that reason.

Figure 1:



Source: *Bureau of Labor Statistics - 2023*

Figure 2:



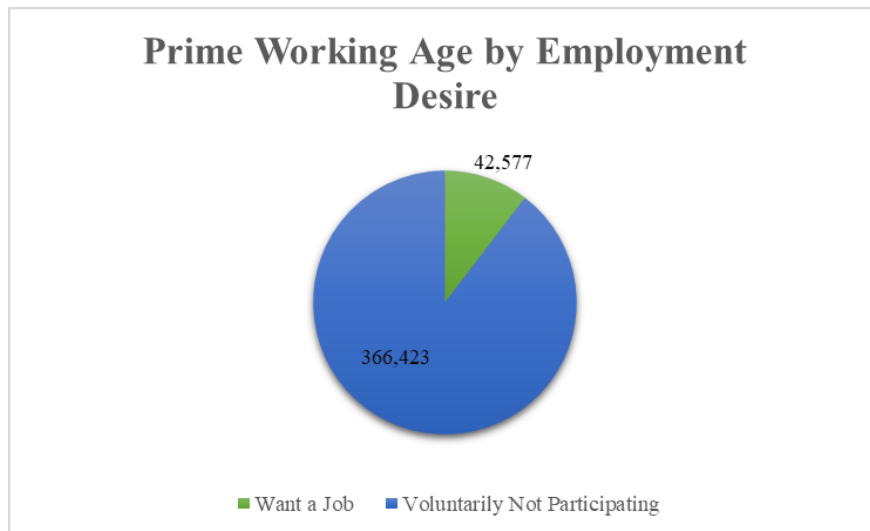
Source: *Bureau of Labor Statistics - 2023*

On the surface, this seems like a large pool of labor to pull from for business in Alabama, but the BLS also collects data on the plans of people not participating in the labor force. Unfortunately, those statistics are collected at a national level, but they still paint a strong picture. Across the United States, only 10.41% of people ages 25 to 54 that are not in the labor force would like a job. This implies that 89.59% are voluntarily not participating.⁴ If

⁴This figure is remarkably consistent over time. From 2018 to 2023, the percentage of Americans voluntarily not participating ranged from 85.6% to 90.6%, with 85.6% representing an outlier during 2020. (Bureau of Labor Statistics, 2018-2023).

we apply these national rates to Alabama, this implies a total of 42,577 people of prime-working age that would like to participate in the labor force but are not currently (See Figure 3). Thus, this is the rough size of the prime-working age talent pool sitting on the sidelines. Some might argue with the choice of applying national statistics to Alabama; however, given Alabama’s low cost of living and the subsequent ease of remaining out of the labor force, it is likely that the percentage of Alabamians that want a job but are not participating in the labor force is lower than the national average of 10.41%. Intuitively, low cost of living reduces the pressure on secondary income earners to join the labor force. Thus, we can view the estimate of 42,577 people as a higher end estimate of prime-working age labor that would like to join the labor force.

Figure 3:

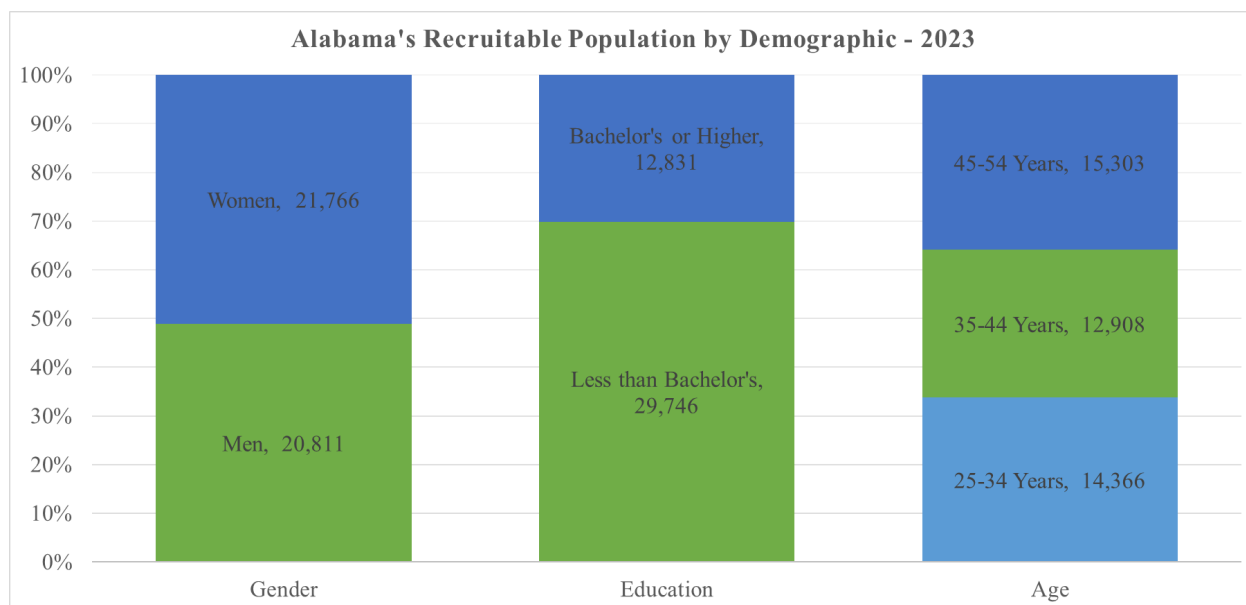


Source: *Bureau of Labor Statistics - 2023*

Now that we know the estimate is around 42,000, what do we know about these people? There is no gender discrepancy here: about 21,000 each are men and women. What about age brackets within the prime-working age definition? By age bracket the figures are: 25-34 Years – 14,366, 35-44 Years – 12,908, and 45-54 Years – 15,303. There are some slight age discrepancies, but nothing serious (See Figure 4).

What about education? Using Alabama’s educational attainment data provided by the US Census and national labor force educational data provided by the BLS, we can determine that approximately 12,831 of these individuals hold a bachelor’s degree or higher and the remaining 29,746 hold less than a bachelor’s degree. We are unable to drill deeper using the Census data to determine the types of bachelor’s degrees these individuals hold, but it is unlikely that the mix of degrees in this demographic matches the mix of degrees we see in the employed and unemployed populations.

Figure 4:



State Comparison

We can apply the same methods from the previous section to other states to serve as a basis of comparison. Is Alabama's situation unique? Is it purely down to a difference in demographics? We compare Alabama to the rest of the Southeast, and the results are presented in Table 1.

Table 1: Recruitable Population by State - 2023

State	Pop. NP*	Prime Work- ing Age Pop. NP**	Prime Work- ing Age Pop. NP, Want a Job	Recruitable % of Pop. NP
Alabama	1,725,000	409,000	42,577	2.47%
Georgia	3,300,000	759,000	79,012	2.39%
Tennessee	2,259,000	500,000	52,050	2.30%
Mississippi	1,052,000	239,000	24,880	2.37%
Florida	7,476,000	513,000	53,403	0.71%
South Carolina	1,800,000	369,000	38,413	2.13%
Louisiana	1,478,000	370,000	38,517	2.61%

* includes all individuals 16+ that are not participating

** includes all individuals 25-54 that are not participating

Table 1 shows that Alabama's situation is far from unique. In fact, most of the Southeast is in the same situation, with the exception of Florida. In order to compare state to state, we divide the prime working age population that wants a job but is not participating in the

labor force by the total population that is not participating in the labor force. For simplicity, we call this the “recruitable population.”

For most of the Southeast, the recruitable population sits in the low 2% range.⁵ Florida is an exception due to the large proportion of retirees in their not participating population. This drags their figure downward. Even in absolute terms, Alabama is fairly middle of the pack, as the numbers range from 25,000 to 80,000 in the Southeast with Alabama sitting around 42,000.

Conclusion

This analysis shows that Alabama’s low LFPR is not as concerning as it initially seems. Even if the state were able to get all 42,577 individuals of prime-working age that would like a job into the labor force, Alabama’s LFPR would move from 57.2% to 58.3%. This figure would still be below the national average, but now we have an inkling as to why. Alabama’s demographics trend older and the state has a large population of individuals that appear to be voluntarily sitting out of the labor force.

The key word is “voluntary.” If Alabama has a sizeable proportion of its prime-working age population voluntarily sitting out of the labor force, is that a sign of weakness or of strength? The case for strength is obvious: Alabama is 3rd in the nation for cost of living, thus it is much easier to support a household on just one income in Alabama compared to the rest of the country. Moreover, having sizable portions of the population in education or in retirement is also a sign of the strength of a state’s current and future economy.

The case for weakness is also obvious: Alabama has less available labor than it otherwise could have, but whether there is anything to do about it is less clear. The rest of the Southeast faces the same situation, which suggests that this may be a structural feature of demographics in the region.⁶

Based on the available data, increasing Alabama’s LFPR beyond 58.3% would require changing, from the top down, the preferences of individuals that have already signaled that they are sitting out voluntarily. Why they have chosen to sit out voluntarily is unknowable, as those reasons are not collected by the BLS, but low cost of living and cultural norms are possible reasons for these preferences. It is important to note that those voluntarily sitting out of the labor force are not considered unemployed. Most workforce studies for the state of Alabama study reasons why *unemployed* individuals struggle to find work (Alabama Workforce Council, 2023). For example, they find that childcare, transportation, lack of skills, and other reasons account for why some Alabamians remain unemployed. These studies do not target the individuals we have discussed in this paper.

It is also quite likely that the consistency across states in terms of the recruitable population could be due to the existence of a baseline level of recruitable population, much

⁵Some of this is a result of using the same 10.41% job desire rate from the national survey and applying it to each state; however, the rest of it is due to the Southeastern states having similar proportions of their prime-working age population not participating.

⁶Southeastern states have a larger proportion of their population that is older than 55, which means they are likely to have more retirees than other regions. Table 2 in the Appendix shows this demographic comparison for the Southeast versus states with younger populations. It is a statistical necessity that younger states will have higher LFPRs.

like there is a baseline level of unemployment that simply doesn't go away in employment statistics. This is due to people changing jobs and being measured while they are between jobs, and at any given point in time, a significant amount of people are switching jobs. The same phenomenon could be occurring here, but with individuals that are between jobs long enough that they fall out of the unemployment statistical category and move into the not participating statistical category. If that is the case, then we are simply measuring a statistical artifact, rather than a potential pool of recruitable labor.

Alabama's LFPR is unlikely to change, but there are opportunities for improvement in other aspects of Alabama's labor force. Something that LFPR doesn't account for is labor productivity. If it is unlikely that Alabama is going to be able to add large numbers of people to the labor force, then it follows that a more fruitful path might be to improve the productivity of Alabama's labor pool.

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Appendix

Table 2: Demographics and LFPR - 2023

State	% of Population 55+	State LFPR
<i>Southeast</i>		
Alabama	38.26%	57.2%
Georgia	35.48%	61.7%
Tennessee	38.29%	60.0%
Mississippi	38.58%	53.9%
Florida	41.74%	59.5%
South Carolina	40.05%	57.9%
Louisiana	41.74%	58.3%
<i>Other States</i>		
Utah	28.16%	69.6%
Texas	31.53%	64.9%
Colorado	33.96%	68.2%
Alaska	34.12%	64.5%
California	34.58%	62.0%