

US Daily: Women's Labor Force Participation: Some Room For Cyclical Increase (Chen/Choi)

- The rise in labor force participation to a five-year high of 63.1% in December pushed the unemployment rate up to 3.86%. Women's labor force participation not only made up the majority of the increase in December, but has also rebounded significantly more than male participation since 2015. In today's note, we assess whether there is scope for further increases in female prime-age participation.
- A model explaining prime-age female participation using demographic trends as well as cyclical factors suggests scope for a modest increase by the end of 2019. While female participation in the US also lags most other advanced economies, most of this gap is likely explained by parental leave and childcare policies, suggesting that the underlying trend in the US is unlikely to catch up to those of other advanced economies under current policies.
- On net, we expect small further increases in female prime-age labor force participation to be offset by aging of the workforce. Therefore, we see the overall participation rate declining slightly to 62.9% by the end of the year. We expect the labor market to continue to tighten, with the unemployment rate declining to 3.4% by year end.

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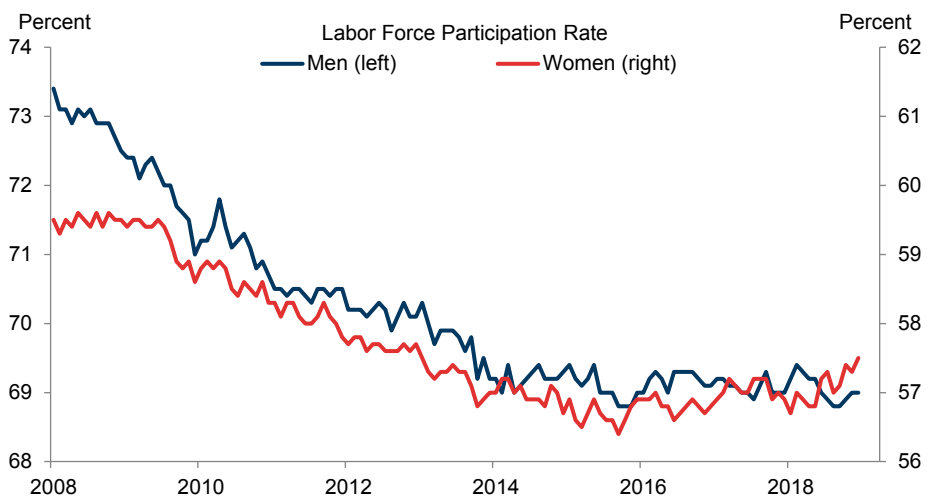
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Women's Labor Force Participation: Some Room For Cyclical Increase

After remaining in a narrow 62.7%-63.0% range over the last year, the labor force participation rate increased to 63.1% in December, matching its 5-year high. The increase was largely driven by a two-tenths increase in the participation rate of women to 57.5%, a 6-year high (Exhibit 1).

Exhibit 1: Women Have Experienced Slightly Larger Rebound in Participation in Recent Years



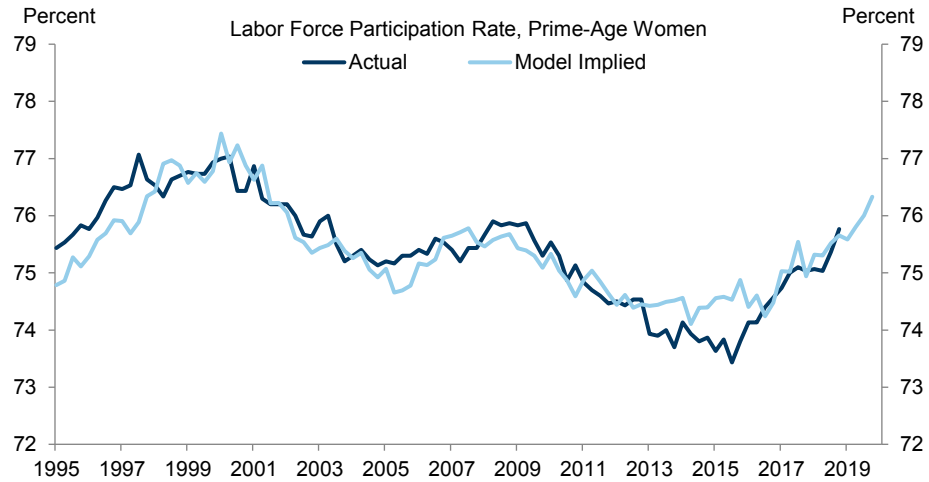
Source: US Bureau of Labor Statistics

In previous work, we found limited scope for future increases in the male participation rate because of factors such as technological change, trade, opioid usage, and incarceration. Today, we turn our focus to the participation rate of prime-age women, which remains below its 2000 level and has fallen behind that of other advanced economies.

We first estimate a model of the prime-age female participation rate that incorporates demographic trends as well as cyclical factors. We use a regression model in which the participation rate is explained using the past unemployment rate as well as our wage tracker, in order to capture the cyclicity of labor force participation and the potential response to higher wages. We then take into account changing demographics by modeling the differing participation rates among the more granular age groups within the prime-age population, and also include the lagged participation rate.

Our findings suggest that labor force participation is more cyclical for prime-age women than for prime-age men. Using our 2019 projections for a pickup in wage growth and a lower unemployment rate path, our model forecasts a prime-age female participation rate of 76.3% by the end of 2019, suggesting some scope for a modest increase from its current level of 75.9% (Exhibit 2).

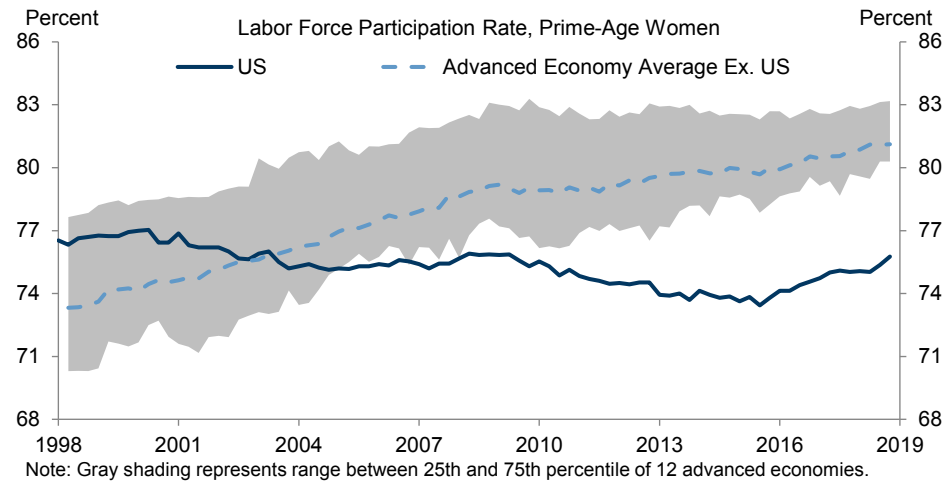
Exhibit 2: Model Estimates Suggest Some Scope for a Further Increase in Prime-Age Female Labor Participation



Source: US Bureau of Labor Statistics, Haver Analytics, Census Bureau, Goldman Sachs Global Investment Research

Next, we compare women’s participation rates in the US to those of other advanced economies. Twenty years ago, the prime-age female participation rate was higher in the US than in most other advanced economies, but today it is the second-lowest in the US (Exhibit 3).¹ Can the US prime-age female participation rate catch up to the international average?

Exhibit 3: Today, Prime-Age Participation Rates Are Lower in the US than Almost All Other Advanced Economies



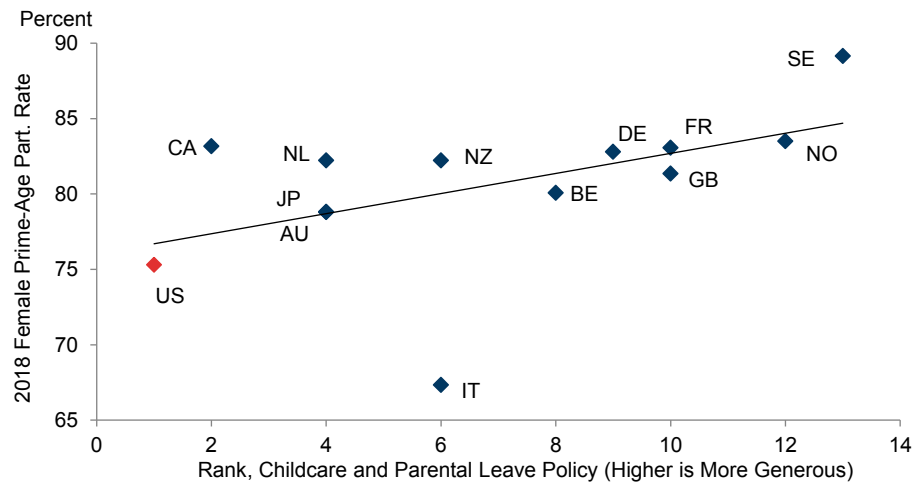
Source: US Bureau of Labor Statistics, OECD, Goldman Sachs Global Investment Research

Among advanced economies, we find that countries with longer government-mandated parental leave and higher public childcare spending have higher female prime-age participation rates (Exhibit 4). Our findings are consistent with academic studies suggesting that differences in female participation rates are driven by differences in

¹ The advanced economies in our sample are Australia, Belgium, Canada, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, and the United Kingdom. Today, only Italy has a lower prime-age female participation rate than the US.

employment and social policies. For example, San Francisco Fed President Mary Daly has argued that longer parental leave and publicly-funded childcare in Canada can explain the large difference in female participation rates between the US and Canada. Other academic studies reach a similar conclusion, finding that longer and better-paid parental leave, laws ensuring workers’ ability to switch to a part-time schedule, and higher public childcare spending increase female participation rates in advanced economies.²

Exhibit 4: Countries with Longer Parental Leave and More Public Child Care Spending Have Higher Female Prime-Age Participation Rates



Source: US Bureau of Labor Statistics, OECD, Goldman Sachs Global Investment Research

Our analysis and review of other academic studies suggest that female prime-age participation rates in the US could increase by around 4pp if the US were to adopt longer parental leave and higher public childcare spending in line with the average across other advanced economies, explaining most of the 5pp gap between the US and the average advanced economy today. Despite recent discussion of these policies, broad adoption across the US appears unlikely in the near-term, and we therefore see little scope for the US female prime-age participation rate to converge significantly towards the international average.

We conclude by updating our labor force participation forecasts. Our base case is for the overall participation rate to decline by two tenths from 63.1% today to 62.9% by the end of 2019, and we expect the unemployment rate to decline to 3.4% by the end of 2019. While the strong labor market should lead to some small further increases in prime-age female participation, the aging of the labor force will continue to weigh on participation rates.

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² See Francine Blau and Lawrence Kahn, “Female Labor Supply: Why is the United States Falling Behind?” American Economic Review, 2013.

Disclosure Appendix

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We, Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, Daan Struyven, Brian Chen, David Choi, Blake Taylor and Ronnie Walker, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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