



Pandemic Recovery Ranking of Virginia and other States Using Labor Force Participation Rate and Unemployment Rate

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Introduction

The unemployment rate is commonly recognized as a key indicator of the labor market's health. However, another significant metric to consider is the labor force participation rate. Both are essential economic measures compiled by the Bureau of Labor Statistics (BLS). Economists often analyze both metrics together to gain a more comprehensive understanding of the labor market.

In this newsletter we will analyze trends of labor force participation rate and unemployment rate for Virginia and other states since the start of the pandemic to rank the extent of pandemic recovery of each state over the past four years.

First let us review a few definitions before diving deeper.

The **working age population** consists of people 16 years and over, excluding active-duty military service people and those incarcerated or otherwise institutionalized, regardless of employment status.

Working age population = employed + unemployed + (neither employed nor unemployed)

(People who are neither employed nor unemployed include students, retirees, stay at home parents, and discouraged workers - someone who would like to work but has given up looking for a job).

People from this working age population are classified as members of the **labor force** if they are employed (i.e., have a job), or are unemployed (i.e., do not have a job and actively looking for one). People from the working age population who are neither employed nor unemployed are not considered part of the labor force. In other words:

Labor Force = employed + unemployed

The **Labor Force Participation Rate** is the number of people in the labor force as a percentage of the working age population. It considers the number of people employed, unemployed as well as those neither employed nor unemployed. Mathematically:

Labor Force Participation Rate = (labor force working age population) × 100

The **unemployment rate** is the number of unemployed people as a percentage of the labor force. The unemployment rate looks only at those within the labor force who are not currently employed. It does not consider those who have given up looking for work and whether they would like a job or not. The formula is:

Unemployment Rate = (unemployed ÷ Labor Force) × 100

Why Labor Force Participation rate and Unemployment rate need to be considered together:

The unemployment rate gives a snapshot of the portion of the labor force that is unemployed at a specific point in time. Whereas, the labor force participation rate provides a broader view of the extent to which people are participating in the labor market, regardless of their employment status.

A low unemployment rate by itself does not always indicate a healthy job market. It needs to be reviewed along with the labor force participation rate to get a better picture of the economy, as the following two scenarios illustrate:

- A low unemployment rate, paired with a declining labor force participation rate may suggest a weak job market. This occurs because a decrease in the unemployment rate can stem not solely from unemployed individuals securing new jobs, but also from some unemployed individuals ceasing to actively seek employment and consequently exiting the labor force entirely. In such cases, a decreasing unemployment rate might not mean the economy is getting stronger; it could mean there are more discouraged workers or problems with the job market itself.
- Conversely, a low unemployment rate coupled with a high and ascending labor force participation rate unequivocally signals a robust job market - It means there are plenty of opportunities out there, and the job market is strong.

Maryland – a cautionary narrative of low unemployment rate, paired with a declining labor force participation rate

Analyzing the latest BLS data on Pandemic Recovery unemployment rate change (from Feb. 2020 to Dec. 2023) rankings, Maryland ranks #1. It has the highest reduction in unemployment rate from pre-pandemic to today. Additionally, it has one of the nation's lowest unemployment rates today at 1.9 percent.

Maryland's unemployment rate dropped from an already low 3.5 percent just before the pandemic to a super low 1.9 percent in December 2023. Sounds great – right? Well, not really. Let us look at where Maryland stands regarding Pandemic Recovery labor force participation rate change (from Feb. 2020 to Dec. 2023) rankings:

| Top Ten States | February 2020 Unemployment Rate | Dec-23 Unemployment Rate | Feb. 2020 to Current Month Change | Feb. 2020 to Current Month % Change | U. S. Rank |
|----------------|---------------------------------|--------------------------|-----------------------------------|-------------------------------------|------------|
| Maryland | 3.5 | 1.9 | -1.6 | -45.7% | 1 |
| Mississippi | 5.8 | 3.3 | -2.5 | -43.1% | 2 |
| Wyoming | 4.7 | 3.0 | -1.7 | -36.2% | 3 |
| Pennsylvania | 4.7 | 3.5 | -1.2 | -25.5% | 4 |
| New Mexico | 5.3 | 4.0 | -1.3 | -24.5% | 5 |
| Nebraska | 3.0 | 2.3 | -0.7 | -23.3% | 6 |
| Louisiana | 4.7 | 3.7 | -1.0 | -21.3% | 7 |
| Alabama | 3.3 | 2.6 | -0.7 | -21.2% | 8 |
| South Dakota | 2.5 | 2.0 | -0.5 | -20.0% | 9 |
| Ohio | 4.6 | 3.7 | -0.9 | -19.6% | 10 |

Maryland is ranked dead last at 51. Its labor force participation rate shrank from a healthy 69.2 percent just before the pandemic to 65.2 percent today—a significant and worrisome drop.

| Bottom Ten States | February 2020 Labor Force Participation Rate | Dec-23 Labor Force Participation Rate | Feb. 2020 to Current Month Change | Feb. 2020 to Current Month % Change | U. S. Rank |
|-------------------|--|---------------------------------------|-----------------------------------|-------------------------------------|------------|
| Maryland | 69.2 | 65.2 | -4.0 | -5.8% | 51 |
| New Hampshire | 68.5 | 64.8 | -3.7 | -5.4% | 50 |
| Maine | 61.8 | 59.0 | -2.8 | -4.5% | 49 |
| Mississippi | 55.9 | 53.8 | -2.1 | -3.8% | 48 |
| Connecticut | 66.5 | 64.1 | -2.4 | -3.6% | 47 |
| Tennessee | 61.3 | 59.4 | -1.9 | -3.1% | 46 |
| Nevada | 64.3 | 62.5 | -1.8 | -2.8% | 45 |
| Kentucky | 58.6 | 57.0 | -1.6 | -2.7% | 44 |
| Idaho | 64.1 | 62.4 | -1.7 | -2.7% | 43 |
| Wyoming | 65.7 | 64.0 | -1.7 | -2.6% | 42 |



How worrisome? Here's what CNN reported:

A massive loss of working-age people in the state in the wake of the Covid-19 pandemic, and its slow recovery since, is the key reason behind the state's ultra-low unemployment rate. A study commissioned by the Maryland Hospital Association released last year said that "Maryland hospitals face the most critical staffing shortage in recent memory, with one in every four nurse positions vacant."

Virginia – success with a low unemployment rate, paired with a rising labor force participation rate

Almost all states have recovered to low or acceptable levels of unemployment rates (under 5 percent) since the spike of the pandemic. In February 2020, Virginia's unemployment rate stood at 2.9 percent. By December 2023, it had risen slightly to 3.0 percent, a very modest uptick.

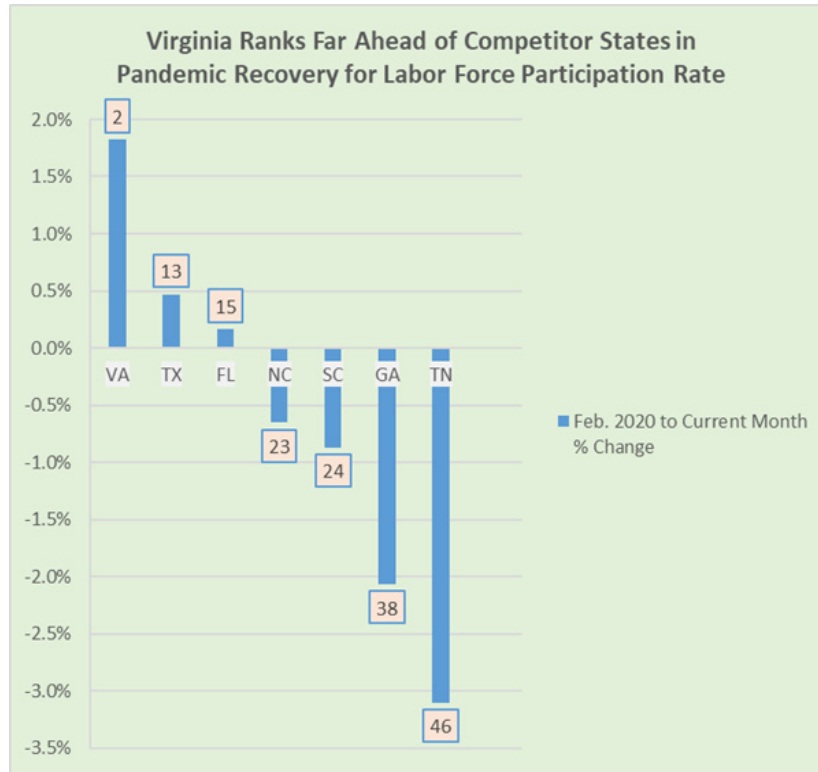
With unemployment rate changes from Feb 2020 to today more or less in the same ballpark for all states, a good measure of the extent of economic recovery from the pandemic is to compare the labor force participation rate of States before the pandemic to today.

Here Virginia has clearly emerged as a pandemic recovery leader, ranking #2 in the nation. Today Virginia's labor force participation rate at 66.9 percent is the highest it has been since March 2012 and is 1.8 percent higher than it was before the start of the pandemic (65.7 percent) - a remarkable achievement. By contrast, 70 percent of States' labor force participation rates today are still below what they were before the pandemic four years ago.

Among Virginia's competitor states (defined as Texas, Florida, North Carolina, South Carolina, Georgia, and Tennessee), Virginia is a dominant leader on this metric:



Virginia has not only consistently lead competitor states in the labor force participation rate in pandemic recovery, but it has also increased the lead over its nearest rival (Texas) since January 2022:



The high and increasing labor force participation rate coupled with a low unemployment rate signifies a strong economy and a thriving job market in Virginia. This unmistakably positions Virginia as a front-runner in pandemic recovery, showcasing a state where job opportunities are expanding, and the business atmosphere is favorable.

