[Accessible version]

BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Consumer Morsel

Understanding the missing millions

23 February 2023

Key takeaways

- With the labor force participation rate currently one percentage point below February 2020 levels, we estimate that more than two million workers should have come back to the labor force but haven't. Who are they and what has happened to them? We shed some light by analyzing data on Bank of America customers who stopped receiving paychecks during the pandemic.
- BofA data corroborates the well-documented view that many of these "missing workers" are older and have likely taken early retirement, especially those with poor health. What is interesting is that prime-age workers (Millennials and Gen X) are exiting the labor force too, specifically lower-income workers in the restaurant and retail sectors.
- What is keeping prime age workers away? Deteriorating health (both related and unrelated to COVID), caregiving responsibilities and migration to areas with lower cost of living are some of the potential explanations, in our view. Given these challenges are unlikely to be resolved in the near term, we think labor supply could face more persistent headwinds.

Deciphering the missing workers

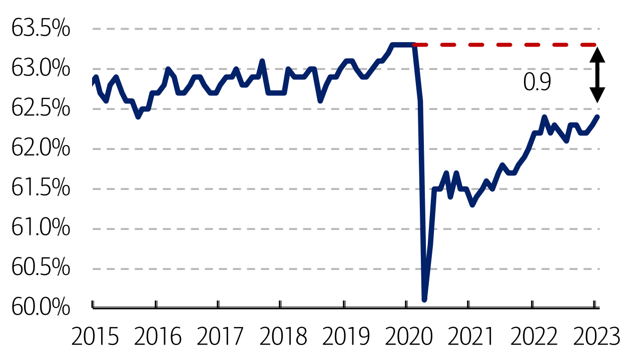
Understanding these "missing workers" is important because it informs us on potential labor market developments. If these exits are temporary, the return of these workers could meet firms' demand for staff and bring down wage rises – crucial in taming overall inflation. If these exits are permanent, we might face a more persistent labor market imbalance.

According to the Bureau of Labor Statistics, despite gradual recovery, the labor force participation rate (LFPR) remained nearly one percentage point (pp) lower than that of February 2022 (Exhibit 1). Using the annual average of 2019 LFPR as a benchmark, we estimate over two million workers should have come back to the labor force since the pandemic but haven't. What happened to these "missing workers"?

For simplicity, we define "missing workers" as those Bank of America customers that received paychecks through direct deposits for at least six of the 12 months in 2019, but who no longer received paychecks as of 4Q 2022. Latest Bank of America data suggests around 15% of workers have stopped receiving paychecks. One caveat is that our calculation might capture those who have remained in the labor force but have changed banks. Because such "churning" impact is hard to quantify, **we focus more on the high-level relative comparison between demographic groups** instead of on the absolute value.

Exhibit 1: Labor force participation rate (seasonally adjusted, monthly)

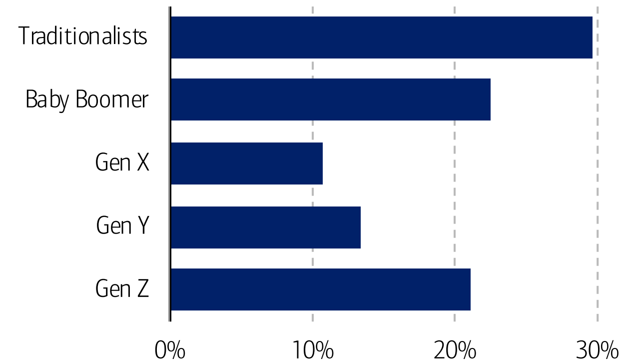
Labor force participation rate remained nearly one percentage point lower than that of February 2022 as of January 2023



Source: Bureau of Labor Statistics

Exhibit 2: Share of "missing workers" by generation

30% of Traditionalists and 23% of Baby Boomers are no longer receiving paychecks, more double that of Gen X and Millennials



Source: Bank of America internal data

More people retired in the pandemic than population trends would suggest

The demographic breakdown of these missing workers suggests they are mostly older: 30% of Traditionalists and 23% of Baby Boomers are no longer receiving paychecks, more than double that of Gen X and Millennials (Exhibit 2). This is not a surprise as many older workers have likely retired over the past few years. What is significant is that more people retired during the pandemic than population trends would suggest (as we first discussed in a June 2022 Consumer Morsel). Specifically, the St. Louis Fed estimated that there were over 2.4 million excess retirements, as of December 2021. Many exited the labor force early with poor health, as evidenced by a survey from the Census Bureau (Exhibit 3). In our view, it is unlikely these workers will return.

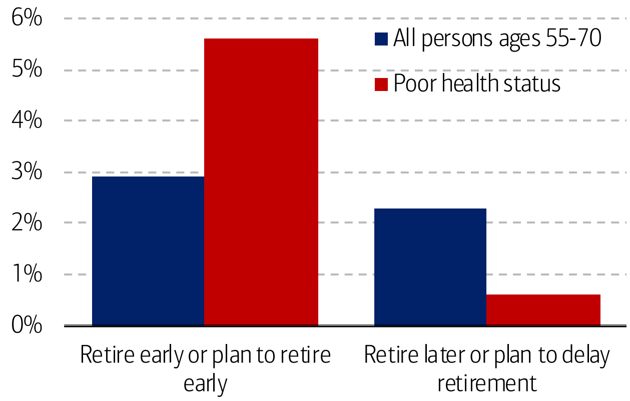
Many restaurant and retail workers just haven't gone back after the pandemic

However, it's not just older workers. Prime-age employees (i.e., Millennials and Gen X) are exiting the labor force too. Bank of America data shows that of its customers, 11% of Millennials and 13% of Gen X who were employed in 2019 stopped receiving paychecks through direct deposit as of 4Q 2022.

Most of these prime-age workers that have exited the labor force left the restaurant and retail sectors. High-touch industries have suffered a lot over the past few years and even though the pandemic is largely behind us and these industries have recovered somewhat, many staff have chosen not to return. On the flip side, biology/pharmaceuticals and software had the lowest share of prime-age workers leaving the sectors. In addition, our data also finds that missing prime-age workers tend to be lower earners, often working in retail and hospitality (Exhibit 4).

Exhibit 3: Retirement status or plan for people ages 55-70 employed in January 2020 (% of respondents)

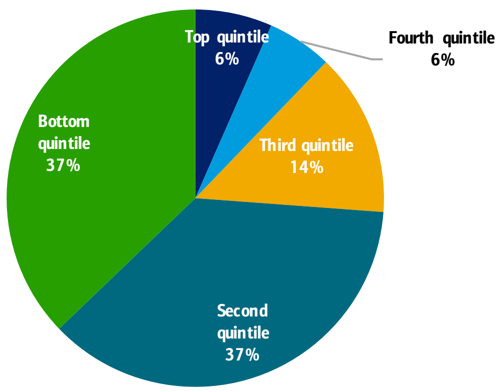
Many of the older generation that exited labor force early are those with poor health condition



Source: Census Bureau 2021 Survey of Income and Program Participation

Exhibit 4: Income quintile distribution for prime-age "missing workers"

Missing prime-age workers tend to be lower wage earners, which relates to the fact that they tend to work in retail and hospitality



Source: Bank of America internal data

Some of the reasons workers may have quit the labor force

The health crisis has a big impact on working hours

First of all, deteriorating health has left many unable to work. Recent research from the Minneapolis Fed found that 24% of people infected with COVID experienced long-COVID and, of them, around a quarter reported long COVID impacting their employment ability or work hours.

But long COVID isn't the full story. The Household Pulse Survey from the Census Bureau has shown that the percentage of respondents picking "sickness (non-COVID)/disability" as the reason for not working has surged noticeably over the last few years (Exhibit 5). Problems like obesity or drug abuse could pose longer-term problems for the labor force than the pandemic.

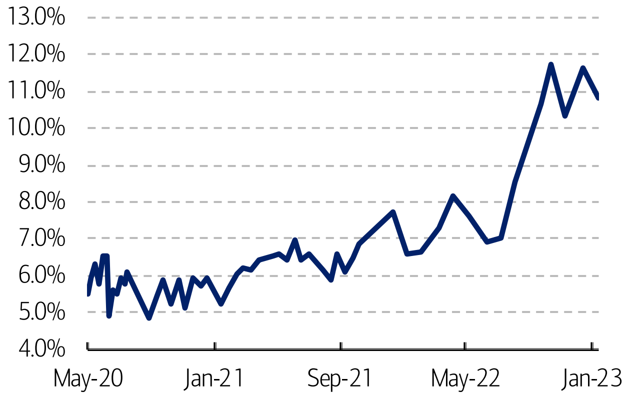
Looking after children and elderly relatives stops some workers returning

Caregiving responsibilities have prevented some from returning to the workforce. In the latest Household Pulse Survey with data as of January 17, 2023, a combined 7% of respondents not working reported caregiving as the reason. This was broken down further: 5% were looking after children and 2% elderly relatives.

The lack of affordable and quality childcare has forced some parents to stay at home instead of returning to work. According to the Consumer Price Index, daycare and preschool costs have increased by more than 10% since the start of the pandemic. This is an even bigger burden for lower-income households, which could partly explain the larger labor force exits at the lower end of the income spectrum. However, across the board, it seems that fewer parents are sending their kids to daycare relative to pre-pandemic days. Bank of America internal data shows that the number of customers making childcare payments as of December 2022 was 7% lower than at the beginning of 2020 (Exhibit 6).

Exhibit 5: Household Pulse Survey: percentage of respondents choosing "sickness/disability" as reason for not working (%)

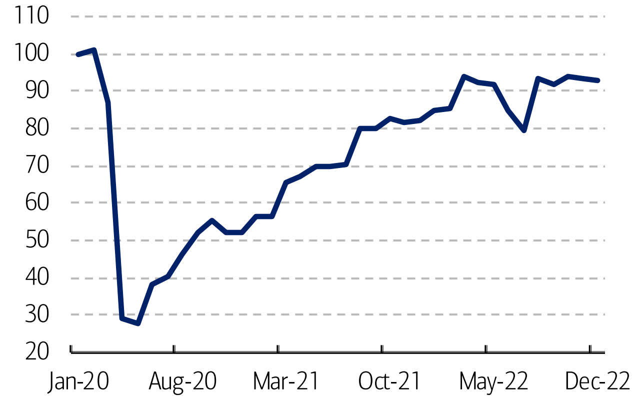
The percentage of respondents picking "sickness (non-COVID)/disability" as the reason for not working surged noticeably over the last few years



Source: Census Bureau

Exhibit 6: Number of customers making childcare payments (monthly, index, January 2020 = 100)

The number of customers making childcare payments as of December 2022 was 7% lower than that of the beginning 2020



Source: Bank of America internal data

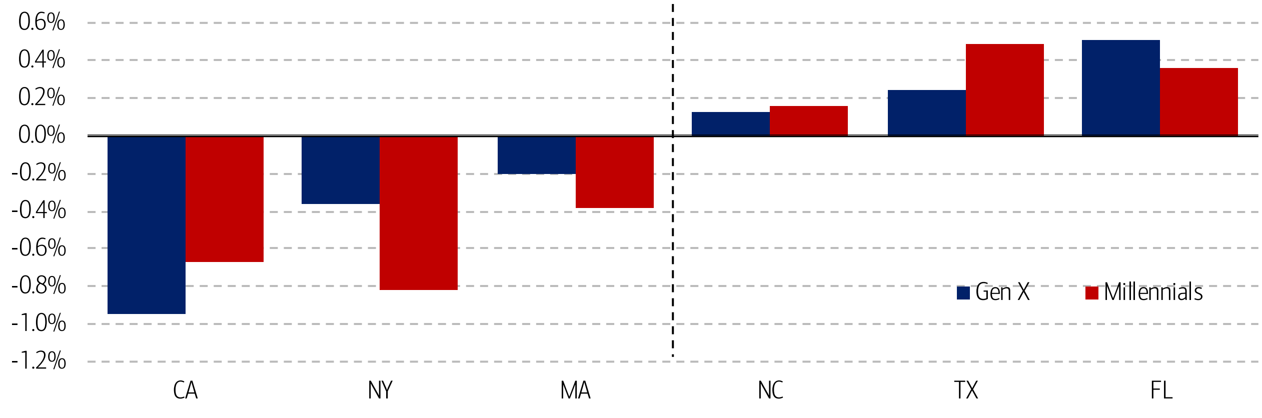
Migration to areas with lower cost of living?

Lastly, we think some workers employed in regions most severely affected by the initial COVID lockdown have migrated elsewhere. These areas tend to be states with large metropolitans, such as New York and California, where the cost of living is higher than the rest of the country. Some workers might have migrated to states with higher affordability, working fewer hours or not at all.

As Exhibit 7 shows, based on Bank of America data, of the missing Gen X and Millennial workers, California, New York and Massachusetts saw the biggest migration out, while Florida, Texas and North Carolina experienced the biggest migration in. Our findings are echoed in recent research from Harvard University, which showed that low-income workers in high-income neighborhoods took the biggest hit during the pandemic and never returned to the labor force.

Exhibit 7: Top three states with the most out- and in-migration of "missing workers" (percentage point change in between 2022 and 2019 in the share)

Of the missing Gen X and Millennial workers, California (CA), New York (NY) and Massachusetts (MA) saw the biggest migration out, while Florida (FL), Texas (TX) and North Carolina (NC) experienced the biggest migration in



Source: Bank of America internal data

Persistent headwinds to the labor supply

Given all the possible reasons that have kept people away from the labor force – retirement, health conditions, caregiving responsibilities and migration – it seems unlikely these trends will reverse quickly. As a result, although Fed rate hikes could slow the labor market in the coming months, we think labor supply faces persistent headwinds in the longer run.

Contributors

Anna Zhou

Economist, Bank of America Institute

Sources

Dale Lin

Quantitative Finance Manager, Global Risk Analytics

Peter Su

Vice President; Sr Quantitative Fin Analyst

Ana Maxim

Senior Vice President, Consumer and Small Business

Methodology

Selected Bank of America transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Sample of customers used in this analysis include consumer households who have a direct deposit account with Bank of America.

Bank of America credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards is excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Additional information about the methodology used to aggregate the data is available upon request.

Disclosures