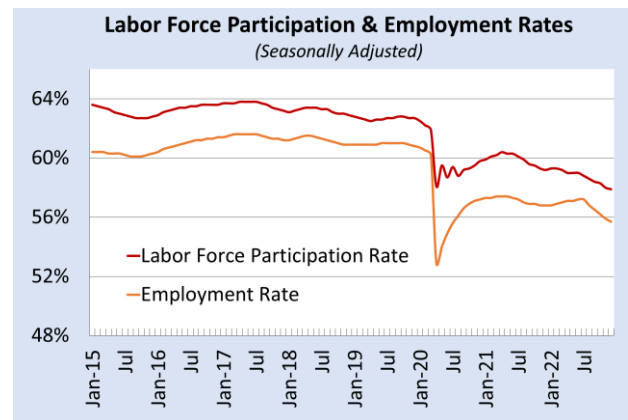
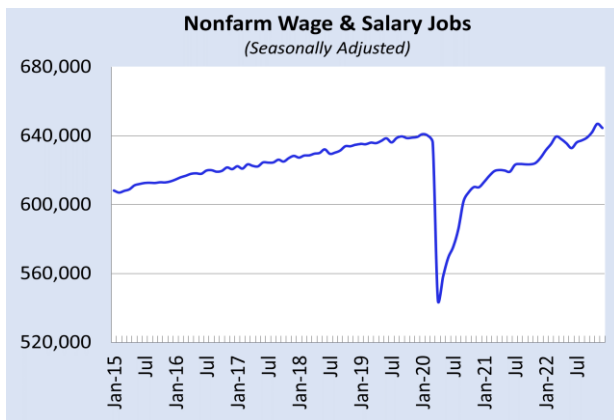


Jobs Reached Record Highs and the Labor Force Shrank in 2022 – Can These Contradictory Indications Both be Correct?

Currently official preliminary estimates indicate that the number of nonfarm wage and salary jobs in Maine reached record highs late in 2022, slightly above levels three years earlier before the onset of the pandemic. They also indicate that labor force participation and employment rates of residents of the state decreased close to five percentage points in that period, to near record lows dating to 1976. This sharp decrease in labor force participation has drawn the attention of both employers and policymakers, concerned that many working-age people have left the labor force.



These contradictory indications are estimates drawn from two different surveys administered by the U.S. Bureau of Labor Statistics. Nonfarm jobs estimates are based on a survey of 3,500 employer establishments in Maine that report the number of people on their payrolls. Those employers comprise close to 30 percent of nonfarm wage and salary jobs. Labor force participation and employment rates of residents are based on a survey of 500 households in the state that report on the status of those age 16 and over. Those households comprise 0.1 percent of the population.

Nonfarm jobs reported by employers in the survey are extrapolated to a complete count of jobs collected through unemployment insurance tax filings that nearly all employers are subject to. That data lags by six to eight months, so the survey is designed to provide a closer to real-time assessment of workforce conditions. In March of each year jobs estimates are revised, benchmarked to the complete count.

Labor force participation and employment rates from the household survey are applied to the population to estimate the size of the labor force and number of employed people in the state. That data is also revised in March each year, though revisions are to information that is less complete than payroll jobs. Labor force and employment revisions tend to be larger and play out over the course of more years. After several years of revisions, the magnitude and direction of change can be quite different from what preliminary estimates portrayed. This is a key point of context for evaluating the employment situation at the close of 2022.

In the last 2.5 years there has been a sharp divide between jobs and employment estimates derived from the two surveys, especially in the second half of 2022. Payroll jobs estimates indicate that there were 5,300 more nonfarm jobs in December 2022 than three years earlier; labor force and employment estimates indicate that there were 32,100 fewer people in the labor force and 37,200 fewer that were employed in December than three years earlier. (The difference between labor force and employed is those that are unemployed.)

Can these contradictory indications both be correct? Theoretically, numbers of wage and salary jobs in nonfarm workplaces and employed residents of the state can sharply diverge. This would be from some combination of changes in agricultural or self-employment (both included in household survey estimates, excluded from

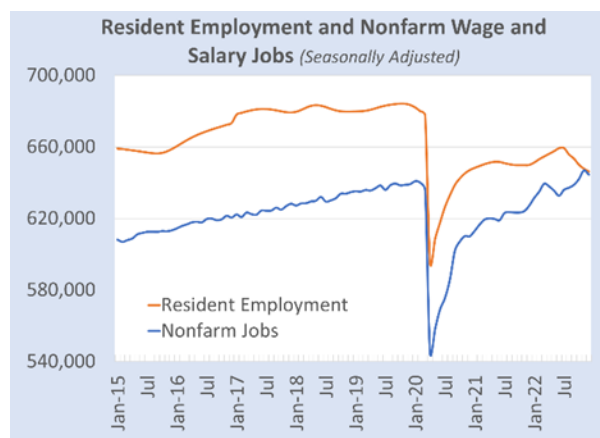
nonfarm payroll jobs estimates); changes in the balance between residents commuting out of the state to work and non-residents commuting in (cross state commuters are included in only one of the datasets, depending which state they work or live in); or from changes in multiple jobholding (payroll data counts jobs held, household data counts employed people).

The reality is those work situations comprise a small share of employment. A substantial majority of employed Maine residents have one wage and salary job in one nonfarm workplace located in the state. The scale of change in work arrangements required for there to be 5,300 more nonfarm jobs with 37,200 fewer employed people is substantially different from anything that has ever occurred in a few years.

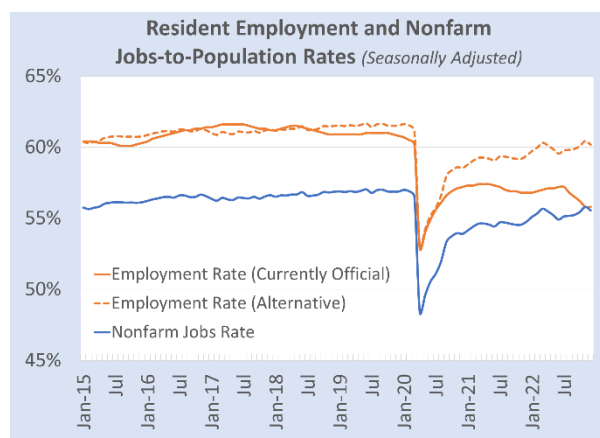
Of the two datasets, preliminary payroll jobs estimates have proven to be more precise, subject to much smaller revision than estimates from the household survey. This is because the payroll survey is much larger (30 percent of jobs compared to 0.1 percent of population).

From 2007 to 2019 there was an average of 8.1 percent more employed residents than nonfarm wage and salary jobs in the state; most months fell within one percentage point of that average. Since the middle of 2020 that

differential has eroded to as little as 0.1 percent at the end of 2022 – the smallest on record by a wide margin. This is demonstrated in the first chart on this page.



As nonfarm job estimates have historically been more reliable, gauging the ratio of jobs to the population likely provides a better indicator of employment rates in recent months. As demonstrated in the second chart on this page, the alternative employment rate based on the average differential between nonfarm jobs and employment rates provides a close proxy to official employment rates through the middle of 2020. After that there was a sharp divergence. This indicates that employment rates (and by extension labor force participation rates and employment and labor force levels) have been substantially understated for the last 30 months, especially in the latter part of 2022.



Though the number of nonfarm jobs was higher in December 2022 than three years earlier, the nonfarm jobs rate was slightly lower. (This is because the population was larger with a somewhat higher share that were retirement-age.) From this, we estimate that “real” employment and labor force participation rates were about one percent lower at the end of 2022 than three years earlier and that the number of people in the labor force and employed was nearly the same as three year earlier.

In Summary

Conclusions that thousands of working-age people have left the labor force are drawn from a household survey that does not always provide precise estimates, at least preliminarily. Labor force estimates are subject to substantial revisions over several subsequent years. Unofficial alternative nonfarm jobs rates indicate that real labor force participation and employment rates are about one percent lower than three years earlier, and that the size of the labor force is about the same as it was then. That trend is consistent with both a strong labor market recovery from the pandemic and with a gradually rising share of retired population.