

Asset Returns and Labor Force Participation During COVID-19

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As of September 2021, the labor force participation (LFP) rate¹ was 61.6%, down from a pre-pandemic peak of 63.4% in January 2020. This 1.8-percentage-point decline in the LFP rate corresponds roughly to a net decrease of 4.7 million workers in the U.S. economy, compared with the pre-pandemic period.²

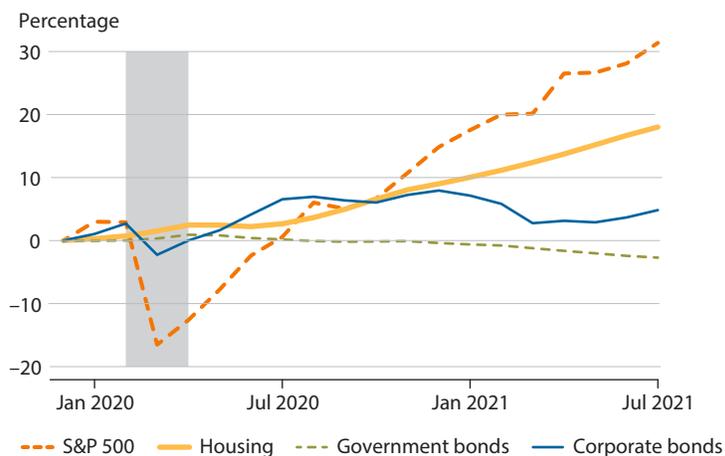
One factor that may have enabled an increase in retirements during the pandemic was rising asset values during this period.

In a previous [essay](#), I discussed the large increase in excess retirements during the pandemic period relative to previous trends.³ An increase in retirements or a decrease in the number of retired people returning to work are among the reasons the LFP may have decreased and remained low. In that essay, I explained that there are many reasons older people may have chosen to accelerate their retirement plans, including greater risk of death conditional on infection and the need to care for family members. Another factor that may have enabled these retirements was rising asset values during the pandemic period. The figure shows that some of the most common asset classes, such as stocks or housing, posted historically high cumulative real returns during 2020 and 2021.⁴ Thus, these years were associated with significant increases in wealth for households exposed to these assets.

In this essay, I try to quantify how much of the 1.8-percentage-point drop in LFP during 2020 and 2021 may have been related to rising asset values during that same period. To do this, I proceed in three parts. First, I take data on household portfolio composition from the 2019 Survey of Consumer Finances. This gives me a detailed picture of what household balance sheets looked like on the eve of the COVID-19 outbreak for a representative sample of the U.S. population.

Second, I impute the realized returns on several asset classes during the 2020-2021 period, which allows me to estimate the evolution in the value of net worth for house-

Cumulative Returns on Selected Asset Classes, 2020-2021



SOURCE: FRED®, Federal Reserve Bank of St. Louis.

holds in the sample (assuming the composition of their portfolio remained fixed).

In the final step, I use standard estimates for the elasticity of LFP rates to changes in wealth; that is, I estimate how much the LFP rate is predicted to change for each household in the sample, given the estimated change in net worth. Standard theories of household behavior predict that people tend to work less in response to increases in wealth, and many studies have tried to empirically measure the magnitude of these effects. I combine the results of one such study⁵ with my estimates for the evolution of net worth to obtain estimates for the change in LFP of individual households, which can then be aggregated into an estimated change of the LFP rate.

I focus on households with members between 51 and 65 years of age who are thus more likely to retire. The computed change in the value of wealth leads to an estimated drop in LFP of 0.92 percentage points for this age group, which corresponds to 0.7 million people—about 15% of the total drop.

It is important to emphasize that rising asset valuations may not have necessarily caused people to exit the labor force (or remain out of it). These resulting increases in

wealth may have, however, compounded other reasons to stop working, as mentioned in the second paragraph of this essay (i.e., risk of death from infection and increased domestic responsibilities).⁶ Finally, it is not clear whether these reductions in LFP are permanent, as people could eventually return from retirement, which is particularly likely for younger households. Nor is it clear whether these labor supply effects are symmetric: Would people increase their LFP by the same amount if their wealth fell? These questions are left for further research. ■

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Notes

¹ The labor force participation rate is the percentage of the civilian noninstitutional population 16 years and older that is working or actively looking for work.

² This calculation uses as a reference point the civilian noninstitutional population as of September 2021, which was equal to 261.8 million people.

³ Faria-e-Castro, M. "The COVID Retirement Boom." Federal Reserve Bank of St. Louis *Economic Synopses*, No. 25, 2021; <https://doi.org/10.20955/es.2021.25>.

⁴ For reference, the cumulative real returns on stocks and housing for a period of the same length ending in December 2019 were 14.8% and 2.4%, respectively.

⁵ Benson, D. and French, E. "How Do Sudden Large Losses in Wealth Affect Labor Force Participation?" Federal Reserve Bank of Chicago Letter No. 282, January 2011; <https://www.chicagofed.org/publications/chicago-fed-letter/2011/january-282>.

⁶ See, for example, the following NPR story: "These Older Workers Hadn't Planned To Retire So Soon. The Pandemic Sped Things Up"; <https://www.npr.org/2021/08/23/1028993124/these-older-workers-hadnt-planned-to-retire-so-soon-the-pandemic-spded-things-up>.