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Population Aging Is Restraining Labor Supply and Lowering Breakeven Job Growth

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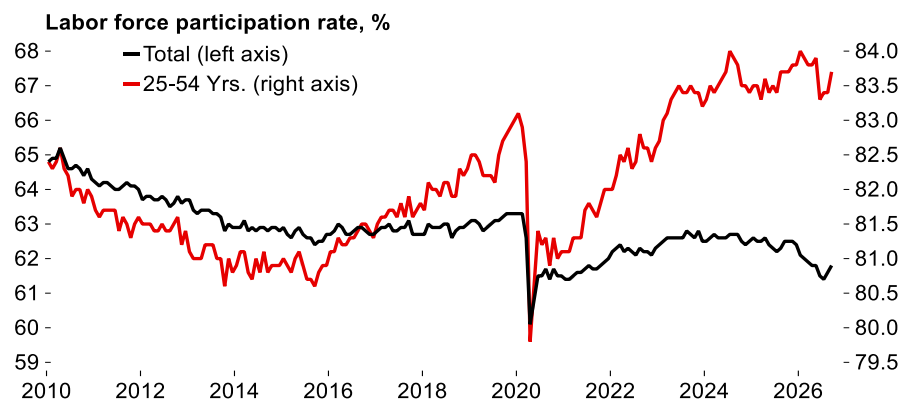
- In a [previous report](#), we acknowledged that labor supply is constrained, especially among the 55+ age group. As a result, the unemployment rate has continued to edge lower. This follow-up report discusses the impact of ongoing demographic aging as a more likely driver of lower labor force participation rather than a shift toward earlier retirement. This trend predates the pandemic and has been reinforced by the growing share of individuals aged 65+ within the 55+ population. As aging continues to weigh on labor force growth and immigration provides less support than in previous years, labor supply constraints are likely to persist, creating a structural headwind for the labor market outlook.
- Despite persistently weak labor supply, labor market conditions remain broadly balanced as labor demand has softened in tandem. Our analysis suggests that trend labor force growth has slowed to an exceptionally weak pace by recent historical standards. As a result, the pace of job creation needed to maintain a stable unemployment rate has declined markedly, helping preserve labor market balance despite slower payroll growth.

Population aging continues to weigh on labor supply

The US labor force participation (LFP) rate experienced a record drop due to the COVID-19 pandemic, falling to 60.2% in April 2020, a rate not seen since the 1970s. While prime-age (25-54) LFP has fully recovered, aggregate participation remains below its pre-pandemic peak, suggesting persistent drags from other segments of the workforce (Chart 1).

Most recently, the LFP rate made headlines as it declined to 61.4% over the summer, the lowest since the pandemic era. This sparked discussion on whether the still-constrained participation rate can be attributed to post-pandemic trends, seasonal shifts, or other persistent drags.

Chart 1: US LFP dropped to a 5-year low in July



Past studies¹ have identified population aging as the main drag for LFP. We discover that this is still the case. Since the onset of the pandemic, LFP for the 55 years and over cohort has been declining. However, the decline has not been uniform within this age group. Participation among workers aged 55-64 has trended up on a 12-month moving-average basis, and has risen above pre-pandemic levels, while participation among workers aged 65 and over has continued to trend lower (Chart 2).

Moreover, growth in the 65+ population has continued to outpace growth in the 55-64 population, increasing the weight of a lower-participating 65+ cohort in the aggregate 55+ participation rate (Chart 3). While recent population-control revisions² may have affected the latest estimates, the upward trend in the 65+ population share predates both the pandemic and the revisions, suggesting that demographic aging remains a persistent structural headwind to participation.

As a result, aggregate 55+ participation has been increasingly weighed down by both the widening participation gap between the 55-64 and 65+ cohorts and the rising share of the 65+ population. The same dynamics are evident within the 65+ population, as LFP has weakened alongside a shift in the population toward older age groups with lower participation rates.

While the pandemic may have initially accelerated retirements³, recent data suggest that ongoing demographic aging and weaker participation among workers aged 65 and over are playing a larger role in explaining the persistence of lower aggregate participation.

Chart 2: The retreat in older-worker participation is concentrated among those 65+ years

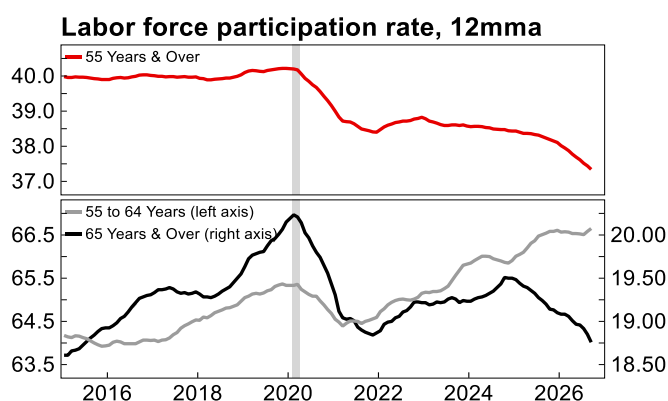
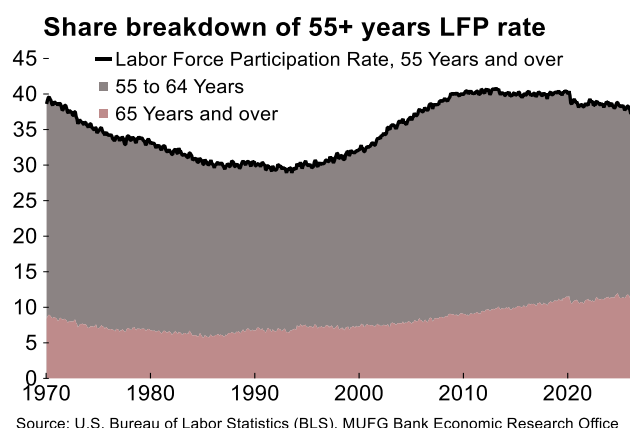


Chart 3: Population shares show increasing 65+ weight to 55+ LFP



Immigration is providing little relief to labor supply

Immigration helped support labor force growth during much of the post-pandemic expansion, particularly during 2024 when native-born labor force growth was negative (Chart 4). However, the contribution from foreign-born workers has diminished substantially and has turned negative in recent months.

As a result, immigration no longer appears to be providing a meaningful offset to demographic headwinds stemming from population aging. Looking ahead, tighter immigration policies, including the expiration of Temporary Protected Status (TPS)

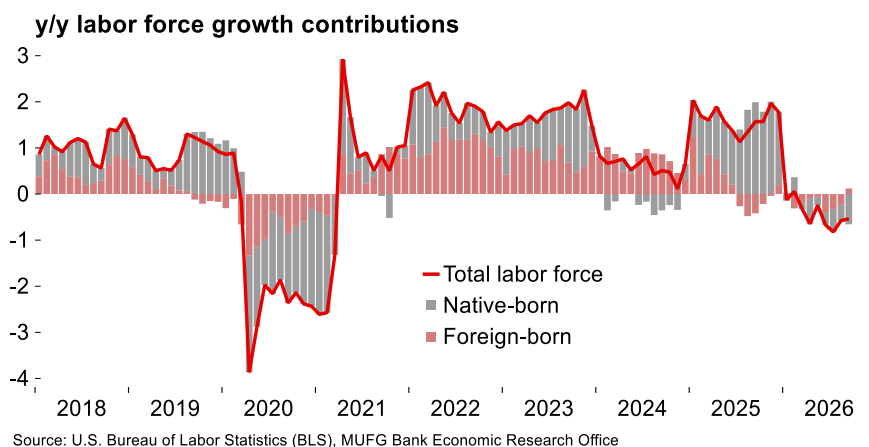
¹ [The Persistent Decline of LFP Rates for Older Individuals Around the Pandemic | Richmond Fed](#)

² [Adjustments to Household Survey Population Estimates in January 2026 \(PDF\)](#)

³ [Dissecting the Great Retirement Boom | Fed in Print](#)

designations, suggest labor force growth could face additional headwinds if outflows accelerate or inflows slow further. Consequently, labor supply may remain constrained.

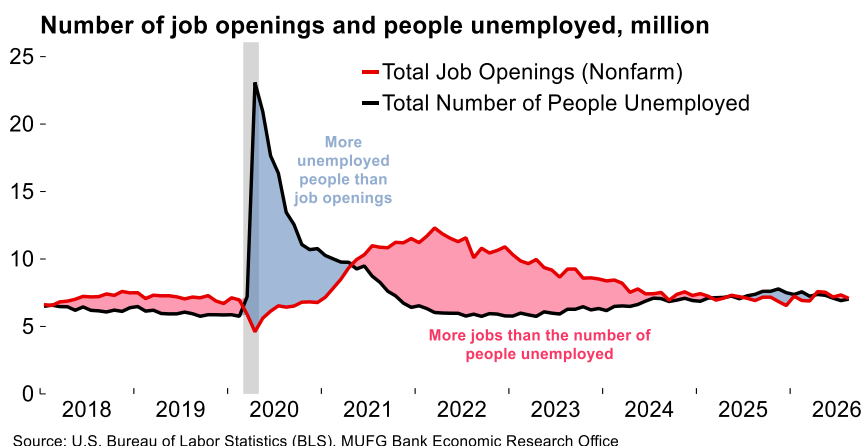
Chart 4: Immigration is no longer providing the same support to labor force growth



A weaker labor supply is actually keeping the labor market in balance

Labor supply remains constrained by demographics and slower workforce growth, but softer labor demand has largely eliminated the vacancy surplus that characterized 2021-22 (Chart 5). That excess demand gradually diminished through 2023 and 2024 as labor demand cooled. As a result, labor market conditions appear considerably more balanced, with the vacancy-to-unemployed ratio running near 1.

Chart 5: The gap between labor demand and available workers has closed



The weaker labor supply created an unusually low threshold for job growth

While the labor market appears more balanced than in recent years, assessing whether current job growth is sufficient to maintain that balance requires a benchmark for sustainable employment gains. We therefore estimate the pace of employment growth consistent with a stable unemployment rate, commonly referred to as breakeven employment growth⁴.

⁴ Breakeven employment growth is calculated as $(1 - u^*) \times \Delta LF^{\text{trend}}$, where u^* is the Congressional Budget Office's estimate of the long-run equilibrium unemployment rate (4.4%). Trend labor force growth is derived from a Christiano-Fitzgerald filter (2-72 months) applied to a labor force series. A March 2020 break is used to account for pandemic-related distortions, and the series is extended using BLS labor force projections to mitigate endpoint bias.

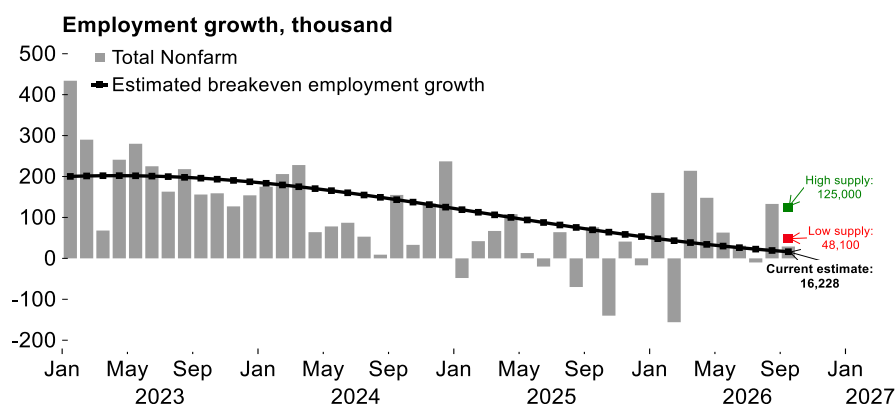
Breakeven employment growth is closely tied to underlying labor force trends. As more workers enter the labor force, additional job creation is needed to keep the unemployment rate stable. Conversely, when labor force growth slows, fewer new jobs are needed to maintain the same unemployment rate. To capture this relationship, we first extract the trend in labor force growth and use it as a key input into our breakeven estimate. Once estimated, job growth above the breakeven pace would tend to place downward pressure on unemployment, while growth below breakeven would be expected to increase labor market slack.

Importantly, breakeven employment growth is not constant. Because it is driven largely by labor force growth, it has trended lower in recent years as population aging has weighed on labor supply. While the estimated level of breakeven employment growth is sensitive to methodology and assumptions, the results suggest that the pace of job creation needed to maintain a stable unemployment rate is substantially lower than in the past.

To illustrate the importance of labor supply, we compare our current breakeven estimate with estimates based on simple alternative labor force growth assumptions (Chart 6). The exercise is intended to show the sensitivity of breakeven employment growth to changes in labor supply rather than provide a forecast. Noted in the chart are the breakeven employment growth estimates assuming a historical low-supply environment (25th percentile of the post-2010 distribution) and a stronger supply environment (75th percentile of the distribution).

Notably, the estimated breakeven employment growth based on current trend labor force growth is lower than the level implied by the historical 25th percentile, underscoring the unusually constrained supply backdrop facing the labor market today.

Chart 6: Today's labor market requires fewer new jobs than in the past



Note: Breakeven employment growth is calculated as $(1-u^*) \times \Delta LF$, where u^* denotes the CBO equilibrium unemployment rate and ΔLF denotes trend labor force growth. Alternative estimates use the 25th (low supply) and 75th (strong supply) percentiles of post-2010 trend labor force growth.
Source: U.S. Bureau of Labor Statistics (BLS), MUFG Bank Economic Research Office

Implications for the labor market outlook

The labor market remains constrained by weak labor supply, but softer labor demand has helped prevent a renewed imbalance between available workers and labor demand. As a result, labor market conditions appear broadly balanced. In this environment, labor market conditions are unlikely to be a significant source of renewed inflation pressure unless labor demand strengthens materially relative to labor supply.

Our findings suggest that weak labor force growth has materially reduced the pace of job creation needed to maintain a stable unemployment rate. This implies that employment gains that would have appeared weak by historical standards may still be sufficient to keep the unemployment rate stable today. As long as labor demand continues to cool alongside labor supply, the labor market should remain broadly balanced, allowing the Federal Reserve to focus more squarely on inflation risks.

Looking ahead, we expect labor supply constraints to remain a defining feature of the labor market. While labor demand has softened sufficiently to restore balance, any renewed acceleration in hiring would need to be matched by stronger labor force growth to avoid a re-emergence of labor market tightness. Conversely, as long as labor demand continues to moderate alongside labor supply, labor market conditions should remain broadly consistent with a stable unemployment rate and limited labor-market-driven inflation pressure.

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