California’s Labor Force: A Swift Recovery, but What’s Next?
Over the past two years, California’s economic recovery from the COVID-19 recession has been surprisingly swift. Though jobs have yet to recover fully in some of the hardest-hit sectors, total employment has recovered faster than in previous recessions. The accelerating demand for workers, along with an historically high quit rate (aka the Great Resignation), has contributed to strong wage growth in many sectors and is drawing more workers back to the labor force. While this is good news in the short term, today’s workforce pressures and needs reflect ongoing challenges that California must address to foster long-term economic mobility and growth.

Tight labor market conditions—characterized by a high quit rate but also a growing labor force—indicate greater economic opportunity for workers in the labor market. Some even suggest calling this time the "Great Reshuffling" as workers seek out and find better jobs, rather than exit the labor force altogether. Wages have increased the most in low-wage sectors; for example, in the leisure and hospitality sector, wages are up 18% compared to February 2020. National evidence shows
quitting is also concentrated in these sectors.

While job changes may provide wage growth for workers in the near term, long-term upward mobility may be limited if workers cannot switch to higher-wage sectors. Workers who switch jobs often stay in the same sector—and data from the pandemic does not suggest marked changes in this pattern, even with lots of quitting and reshuffling. Over half of job changes to the accommodation and food service sector were workers from the same sector, both pre-pandemic and in 2021. At least half of job changes in health care, construction, and agriculture also come from workers within the same sector.

At the same time, increased labor market opportunities may be bringing Californians (back) into the labor force. After falling to 60%—a 40-year low—in early 2020, labor force participation is up notably, reaching 61.8% in March 2022. This is still below pre-pandemic participation levels and reflects a shortfall of about 400,000 Californians participating in the workforce (not accounting for population growth). Though labor force participation has increased quickly, the continued lower levels are likely still contributing to tightness in the labor market: this puts upward pressure on wages but makes it more difficult for firms to attract and retain workers. California’s labor force participation is typically a bit lower than in the US overall, which remains true today, though recent increases have been a bit more rapid here.

Demographic factors—especially the age of the population—also contribute to trends in labor force participation. Compared to prime working-age Californians (ages 25–54), older and younger Californians
typically participate in the workforce at lower rates, and during the pandemic, both groups dropped out of the labor force at higher rates. Labor force participation among older and younger workers still lags, though national evidence suggests the pace of older workers coming out of retirement is picking up, potentially influenced by strong wage opportunities.

Labor force participation has fully recovered for those of prime working age, but there are some notable patterns:

- **Gender:** Women’s labor force participation initially fell more than men’s—by 7% in the early pandemic period (end of 2019 to mid-2020)—but is now 1.5% above pre-pandemic levels.

- **Race:** In early 2020, African Americans experienced the largest labor force drop across racial/ethnic groups, and their labor force participation remains nearly 3% lower than pre-pandemic. While participation fell the least for white individuals, their rate lags behind pre-pandemic levels by nearly 2%. Conversely, participation is now higher for Asian and Latino individuals compared to before the pandemic.

- **Education:** Initial labor force drops were lowest for college-educated workers. However, by 2022, the recovery shows an inconsistent pattern: labor force participation now exceeds pre-pandemic levels for those with a college degree and those with at most a high school diploma, but participation still lags for those with some college and those without a high school diploma.

For now, strong wage growth appears to be contributing to increases in labor force participation. But over time, worker reshuffling will likely recede, and wage pressure due to inflation may also recede if the Federal Reserve’s inflation controls are effective. In the long term,
supporting labor force participation and boosting productivity are key for the state’s economy, especially given slowed population growth and an aging population.

The policies needed to achieve these goals are wide-ranging. Improving child and dependent care as well as family leave would foster parents’ labor force participation, while health insurance and broad access to care support Californians’ ability to work. Meanwhile, education and training allow workers to take advantage of opportunities within or across sectors; the decline in college enrollment today may mean young Californians are opting for short-term wage gains to meet economic needs, but in the long term their economic mobility and our workforce benefit from increased educational attainment.

The pandemic highlighted how interconnected the economy is with our home lives and our health care and educational systems. A strong workforce for California will depend on strengthening supports in each of these areas as we move beyond the pandemic.

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