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Who's really missing from the US workforce?

by **Helen Lao** helen.lao@cibc.com

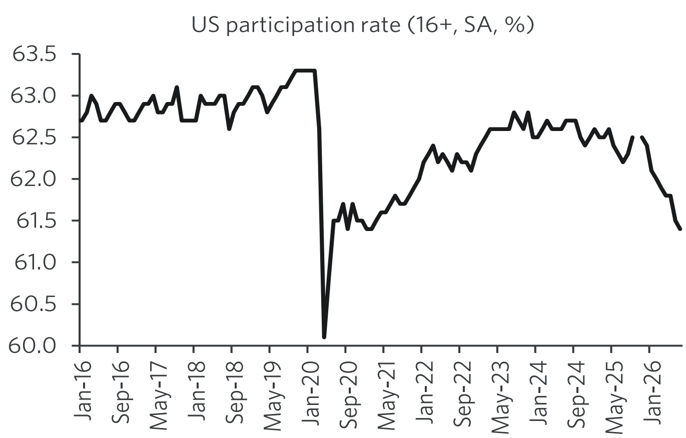
There is a puzzle sitting at the heart of the US labour market right now. July payroll employment fell by 23K, on top of a downwardly revised, barely-there gain in June — the kind of numbers that should be pushing up the unemployment rate. The household survey employment number was even worse, yet the unemployment rate, derived from that same series, continued its recent path lower. Weak hiring and a lower jobless rate don't usually go together, so what is going on?

The answer is that the number of people in the labour force, the sum of those working or looking for work, has been shrinking. The unemployment rate is a ratio — the number of people out of work divided by size of the workforce, and when the denominator shrinks faster than jobs disappear, the jobless rate can fall even as the underlying picture weakens. That is precisely what happened this year — the labour force contracted by 2.4 million people in July 2026 relative to December 2025 (Chart 1).

It's more than just a tight immigration policy that's slowing the overall population growth. That came as no surprise, but what did was a sharp, 1-percentage point reduction in the participation rate, the share of the population 16 and over who are working or looking for work. Part of that was a statistical mirage, as data revisions suggested that the 2025 participation rate had been overstated, and the revisions were only applied to the data in January and beyond. But another part was "real".

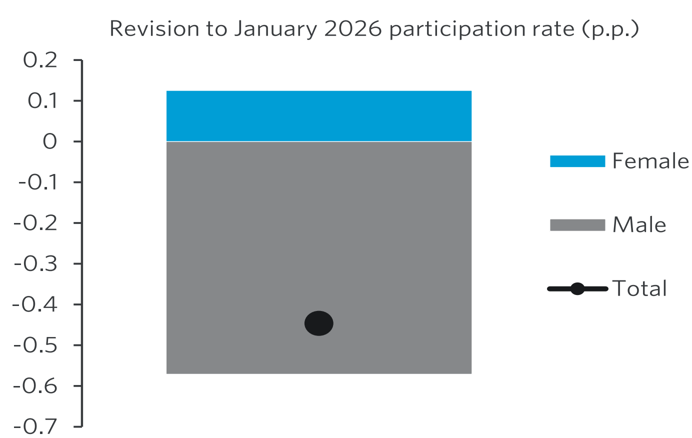
The statistical quirk came from an atypically large population adjustment that was applied to January, which accounted for close to half the drop in the part rate in 2026 so far. But as noted, this simply reflects upside error in 2025 rather than a real change. The January 2026 participation rate was revised down by 0.4 p.p. after the annual population control revision, and this downward revision comes entirely from a downward revision in male participation rate (Chart 2). This finding is consistent with research from the St. Louis Fed. The share of the population of prime-age men, who have a high degree of labor market participation, was revised down, while the share of women over 65, who are less likely to still be working or job hunting, was revised up. The adjusted population mix therefore shows a lower participation rate in total, but that didn't really happen all in January, and would have been true in 2025 had the counts been accurate.

Chart 1: US participation rate has been declining in 2026



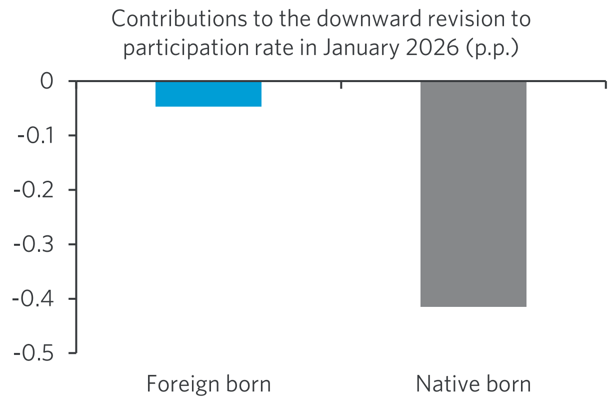
Source: Bureau of Labor Statistics (BLS) via Haver

Chart 2: Participation rate revised down in January mainly due to lower male participation



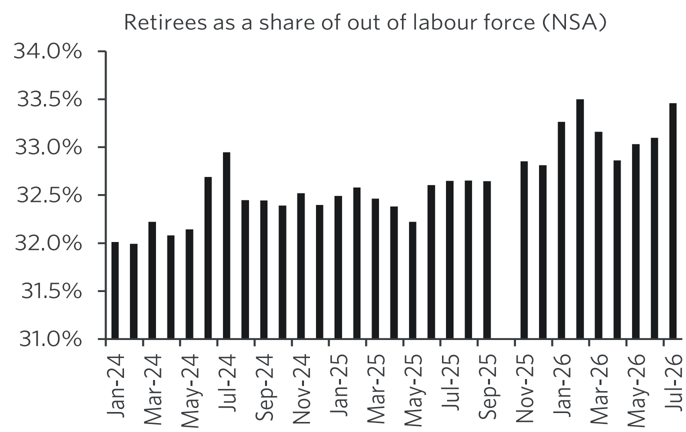
Source: BLS, ALFRED(ArchivaL Federal Reserve Economic Data), CIBC calculation

Chart 3: Native born were the main contributors to downward revision in participation rate in January



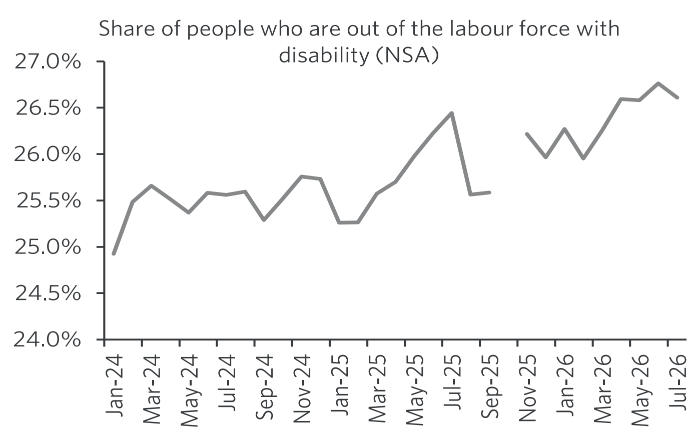
Source: BLS, ALFRED, CIBC calculation.

Chart 4: The share of retirees in the out of labour force population has been rising in 2026



Source: BLS, CIBC calculation

Chart 5: The share of people with disability and out of the labour force has also been rising in 2026



Source: BLS, CIBC calculation.

In contrast, the lower immigration assumption released with the update did not lead to a significant reduction in the participation rate. As chart 3 shows, it was predominantly the lower native born participation rate which pulled down the overall participation rate in January.

The drop in the last two months is due to more people remaining out of the labour force. While the January part-rate change was statistical noise, there was an actual drop in participation in June and July. In those two months combined, the size of the labour force fell by nearly a million people, allowing the unemployment rate to post surprising declines despite a weak pace for hiring.

The labour force declines were met with increases in the number of people who were neither job seeking nor employed, thereby labeled "not in the workforce". "Not in the workforce" could include people who just turned 16 and opt not to look for work, or people who are out of the labour force for various reasons such as retirement, disability or they gave up searching for work. But lately, we're seeing more people who were not in the workforce in both consecutive months, rather than transitioning to employment or job hunting.

For June, we had a modest pick-up in people losing jobs and not opting to look, and a roughly similar increase in the number of unemployed Americans giving up their job hunt. We also saw more people who previously were out of the labour force and decided to remain that way, rather than look for work. This was somewhat concerning because the main group responsible for all these in June were prime-age workers, and it did not seem that more of them were dropping out of the labour force due to an increase in disability. However, prime-age labour force rebounded slightly in July, suggesting that part of the June decline was temporary or even just statistical noise in the survey.

For July, the drop in labour force was almost entirely due to the increase in retirees. The number of people 65 and older with no disability who are currently not in the labour force, a proxy for retirement, accounts for about a third of the record number of Americans who were out of the labour force in July (Chart 4).

Since 2024, the share of people out of the labour force due to retirement and disability has been rising (Chart 4 and 5), while the share of those who want a job held steady around 6%, and the share for those who are out of the labour force for other reasons has been declining (Chart 6). The rise in retirement has also brought down the participation rate among those 65 and older to the lowest level since COVID (Chart 7).

Having fewer Americans opt to work or seeking employment because they are getting further past 65 is no surprise, given the changing demographics of the country. It will, however, place a tightening ceiling on economic growth rates unless immigration rates increase, or less likely, fertility rates rebound. The St. Louis Fed found that structural population aging accounts for about 0.1 p.p. to the decline in participation rate this year so far (Table 1). But the contribution to the drop in overall participation rate from seniors so far is greater than that. That means that other, cyclical factors are leading to an

Chart 6: The shares of factors for people to be out of the labour force other than disability and retirement are fairly constant

Source: BLS, CIBC calculation.

Table 1: Breakdown of drop in participation rate since December

	Contribution (Percentage Points)
January 2026 Population-Control Revision	-0.4
Ongoing Population Aging	-0.1
More retirees due to reasons other than population aging	-0.2
Other reasons	-0.3
Total (December 2025 to July 2026)	**-1**

Source: BLS, Federal Reserve Bank of St. Louis, CIBC estimations

increase in the share of American seniors who are choosing not to work or look for employment (Table 1).

That might be more of a good news story than it sounds. Middle and upper income Americans who had savings invested in the market, or who had defined contribution pension plans that held equities, would have seen outsized portfolio gains that have let them enjoy an earlier, well-funded retirement.

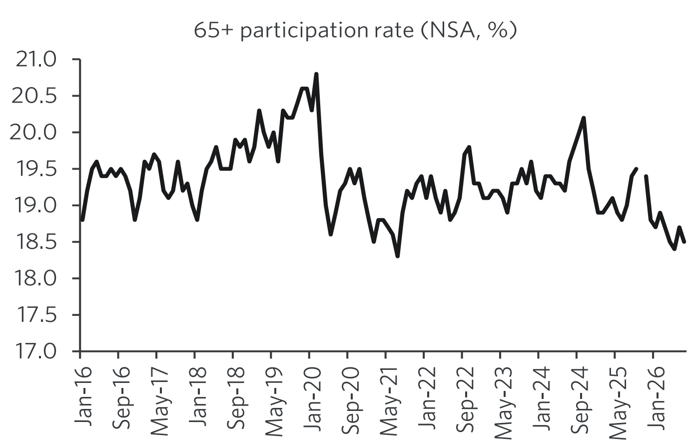
For others, the story may be reflecting less happy news. Recent survey evidence suggests that some older workers retired earlier than expected due to health issues or layoffs. With the current low hiring environment, it is also possible that many laid off older workers simply choose to retire rather than engage in what might look like a futile job search.

However, even if we ignore the statistical mirage in the participation rate from the January revision, and look past the impacts of population aging and other reasons for retirement, we're left with about 30% of the drop in labour force participation that is less easy to dismiss (Table 1). In particular, the drop in prime age participation in June, which only partially recovered in July, would typically be of some concern, potentially signalling a softening in the labour market that could impact growth ahead. However, if we look at prime-age participation rate over a longer period, the current level after the recent drop would bring us back to level seen in 2023 (Chart 8). It is also possible that the rate will continue to recover after July.

Forecast implications

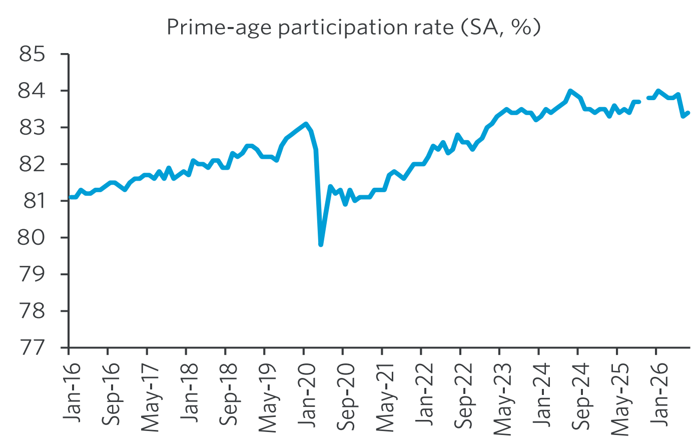
Looking ahead, we are unlikely to see another population-control revision as large as this year. But structural population aging will continue to put downward pressure on labour force growth, and coupled with strict immigration policy, we are expecting near-zero labour force growth (0.2% annual) over the next two years. That would mean a continued gradual decline in the overall participation rate (by 0.1 p.p. on average annually from population aging) and a low net new jobs needed (about 25K monthly) to maintain a steady unemployment rate over the

Chart 7: Participation rate of people 65 and older has been declining in 2026



Source: BLS via Haver

Chart 8: Prime-age participation dipped in June but the level is still near that of 2023



Source: BLS via Haver

medium term. And barring a change in immigration policy, in an economy already sporting a very low unemployment rate, it would put a tightening ceiling on the room for non-inflationary growth ahead, at least until we get the big payoff in productivity that AI bulls are waiting for.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Katherine Judge
katherine.judge@cibc.com

Helen Lao
helen.lao@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
Bloomberg @ CIBC

economics.cibccm.com