Labor Force Flows Point to Tightening Labor Market

The supply of labor is greatly challenged as the labor force participation rate has fallen to the lowest since March 1976 (61.4%). This is due to a panoply of structural factors that include an aging US population — labor force participation for the 55+ age demographic has declined to its lowest since 2005 (discussed July 2) — while fertility rates have been below replacement levels since 2008 (this is now impacting college enrollment), and net migration flows have declined sharply. ***Not only do these forces all point to structurally lower unemployment, but cyclical labor force dynamics have also begun pointing in the same direction since September 2025, as the number of people becoming unemployed (versus previously being 'employed' or 'not in the labor force') has declined to near record lows signaling an improving labor market!***

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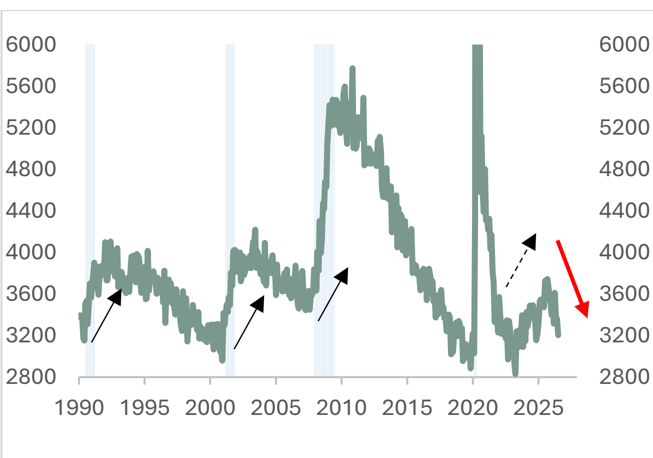
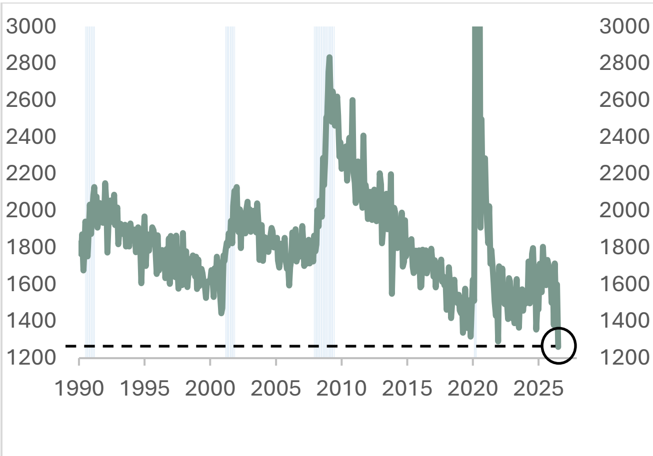
Flows from 'Employed' or 'Not in the Labor Force' into 'Unemployed' (Thousands)



Source: BLS, Haver, SMBC Nikko

'Employed' into 'Unemployed' Flows (Thousands) at Record Low!



Source: BLS, Haver, SMBC Nikko

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