Why businesses should be preparing for a 'forever' labor shortage

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Fewer people will be working by the end of the decade — and employers need to brace for a "forever" labor shortage, experts say.

Fresh projections by the Bureau of Labor Statistics paint a stark picture, with the labor force participation rate expected to drop from 62.2% in 2022 to 60.4% in 2032. It was 63.3% before the Covid-19 pandemic and had generally been falling from a height of 67.4% in 2000. This is driven in large part by population shifts, as baby boomers retire and the number of Gen Z workers entering the labor force is smaller than previous generations, which economists and demographic watchers have long viewed as a slow-burning structural problem exacerbated by the pandemic.

“The projections released by the BLS confirm what economists and business owners are both seeing: what many believed to be a temporary, Covid-induced lack of workers is, in fact, a ‘forever’ labor shortage,” said Tom Bowen, an economist at payroll-and-benefits provider Gusto Inc.

He said slower population growth from fewer births as well as a drop in immigration over the past several decades have also contributed to the upcoming crunch.

“Without these sources of younger workers, the average age of the working population has been rising, which, in turn, has been driving both the long-term labor shortage and has increased demand for services such as health care and social assistance,” Bowen said.

So what have businesses been doing in response? They're increasingly hiring contractors, with Gusto data showing the share of companies turning to contract workers has grown 28% since the start of the pandemic. Companies that are fully remote have also been increasing their hiring of foreign workers, with 20% of fully remote companies having at least one international employee.

While the overall population of those not in prison will grow by 18.7 million over the next decade, only about 6.5 million will be a part of the workforce, according to BLS projections. But older Americans not working will still be a driving force in the economy, as they require services and purchase goods — which means economic growth will remain largely the same as the last decade.

The 0.7% annual population growth through 2032 is a drop from the 0.8% annual population growth between 2012 to 2022, and is one of the lowest population growth rates since the BLS began tracking that data.

But some groups are expected to see a growth in their percentage of the workforce. Women ages 25 to 54 are projected to see their participation rate grow from 76.4% in 2022 to 76.7% in 2032. Men ages 25 to 54 are expected to see theirs drop from 88.6% to 86.7%.

What else are companies doing in response?

Beyond relying more heavily on contract workers, companies of all sizes are having to get creative in recruiting and retaining employees.

Companies are adapting, Morgan said, with some using artificial-intelligence technology to better search for and identify potential candidates instead of typical methods like searching on LinkedIn or recruiting from local colleges.

Many companies are also rethinking requirements for various jobs, including a focus on skills over degrees alone. Morgan highlighted the tech industry as one where a bootcamp degree or skill certificate can be enough for a job that might have normally been filled by an applicant with a four-year degree.

Ultimately, companies need to do more to appeal to workers, especially younger ones, Morgan said. Pay and benefits must be competitive. But perhaps more importantly, companies need to be sure they are identifying and providing workers with a career track they can follow, or they might end up leaving for greener pastures.

“From a retention driver, it's not salary or benefits that's the biggest retention driver. It’s helping people, especially early-stage career folks, identify what the career path in the company is and giving them the experience they want,” Morgan said. “People are leaving because they don’t know where their next move is.”

Smaller businesses in particular might not be able to keep up with the demands of filling open roles in a world where technology is quickly changing and online job postings are no longer enough.

“If you are a small business owner, you don’t have the time or money or resources to stay abreast of this because it’s changing really quickly,” Morgan said, adding it might be time for some businesses to consider outsourcing that work. “You are kind of doing this on your own.”

Economist Anirban Basu said one potential solution would be to dramatically expand legal immigration — or face the consequences of a decline in growth that could then threaten government services, as tax revenues fail to keep up with the cost of services.

“What this really suggests is that America needs an antidote, and that antidote is stepped-up legal immigration into the country to expand more rapidly the size of the labor force,” Basu said.

Meanwhile, employers have to deal with a rapidly changing landscape that includes the push for flexibility in work schedules, the persistence of remote work and even demands for a four-day workweek.