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Unemployment improved because thousands of workers disappeared. Where did they go?

Story by Steve Thompson, Lauren Kaori Gurley

The U.S. economy shed jobs in July, yet the unemployment rate improved — an unusual pairing that points to a worrying story unfolding behind the numbers for some economists.

That's because even as the U.S. economy lost jobs, American workers left the labor market faster. Note

"This is one of the very, very few times where you see the number of jobs shrink but the unemployment rate falls," said Stephen Moore, a conservative economist. The explanation, he said, is fewer people looking for jobs. "That's a big economic story: Where are the workers?"

The share of adults working or looking for work slipped to 61.4 percent in July, extending a weakening in the labor force participation rate this year. That rate has reached the lowest level since February 2021, during the pandemic. Note

Employers shed 23,000 jobs in July, according to Labor Department figures released Friday, and the unemployment rate fell slightly to 4.1 percent from 4.2 percent, due in large part to fewer workers in the labor market.

The aging population is one of the bigger forces leading to fewer workers. As baby boomers retire, they pull down the share of adults either working or looking for work. But that doesn't explain the full drop this year in the labor force participation rate. Note

The share of workers in their so-called prime working years, ages 25 to 54, fell sharply between May and June, and only partially recovered in July, leaving economists to fear that young and middle-aged people are abandoning job searches. Note

Men in particular have been seeing a sharp decline in the workforce, with participation at an all-time low outside of the peak of the pandemic, at 66.8 percent in July, with both older men and the youngest men in the workforce driving the decline. That's concerning for both social and economic reasons, Moore said. "That is not a good trend." Note

"We're just not seeing males working as much, and I don't have a good explanation for why that is," he said.

A shifting economy plays one role. Most recent job growth has come in health care and private education, fields long dominated by women. Several male-dominated industries, including manufacturing, transportation and mining, have shed jobs over the past year. That leaves a mismatch between the skills many men have and the jobs available. Note

The decline is a potential warning sign, many economists say.

"We like to see the unemployment rate go down typically, right?" said Alexander Bick, an economist at the Federal Reserve Bank of St. Louis. But that's because it normally indicates employment is going up.

Bick has watched the labor force participation rate fall for months, and he says it's "a worrying trend." The fear is that discouraged workers are giving up.

But the picture is not yet clear, because other factors are also playing a role, including the Trump administration's big push to seal borders, stop immigration and deport immigrants, which has led to a decline in foreign-born workers.

Teens and young adults have also fallen out of the workforce. The share of 16- to 19-year-olds working or looking for work has fallen this year, hovering near the lowest levels since the pandemic after teen employment surged in 2023 and 2024. The share of 20- to 24-year-olds in the workforce has also fallen in recent months.

One reason some teens are not working is because more are graduating high school, reflected in rising high school graduation rates, experts say. But another reason is weaker hiring in the hospitality and retail sectors, which tend to employ young people.

Growth in artificial intelligence and other technologies may also be creating new barriers to entry-level roles. For example, self-service kiosks have taken the roles of many cashiers, said Sara Estep, an economist at the Center for American Progress, a liberal think tank in Washington. Also, A.I. applicant screening tools could be favoring more experienced workers.

Estep said she worries that young people are missing out on work experiences that could help them gain a foothold in the labor market for years to come.

There is one bright spot from the latest jobs report, said Guy Berger, director of economic research at the Burning Glass Institute, a Philadelphia think tank that studies the labor market. Even as workers have left the workforce, the number of people who say they want a job but have given up searching over the past month has ticked slightly down.

"The things that would make me really worried about labor force exits aren't showing up," Berger said. "People aren't telling us, 'I want a job but can't find one.'"