

State's workforce has been shrinking since September

Declines have only happened during pandemic, the Great Recession, and 1980s oil and gas bust

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Buried deep within an otherwise routine state employment report for December is a troubling mystery. Colorado is starting to see an alarmingly large number of workers go missing.

Colorado's labor force shrank 0.6% year-over-year last month, a monthly decline matching the pace seen during the Great Recession. After flatlining in August, the labor force, those working or looking for work, has been retreating since September. For the year, 20,280 people vanished from its ranks, mostly in the fourth quarter.

That has never happened outside a severe recession or economic shock like the COVID-19 pandemic. From April 2020 to March 2021, workers removed themselves from the labor force in record numbers. Giving up a paycheck to avoid landing on a respirator seemed like a fair trade-off to many older workers during the pandemic. The defections were unprecedented, triggering a 3.4% drop in the labor force in July 2020. But they were short-lived. People returned once restrictions eased and vaccines became available.

Another 12-month stretch of a draining labor pool occurred from September 2009 to August 2010 during the housing crash and Great Recession. People couldn't easily replace the jobs they lost. Many gave up trying. That contributed to annual declines of 0.7% and 0.6% during the worst months.

The mother of all Colorado labor force deflations happened from July 1985 to June 1989. It started during a severe oil and gas downturn, which was followed by a lending crisis, which was followed by a collapse in commercial real estate and home values. It was such an ugly period economically that companies and people packed their bags and left the state in droves. The year-over-year drops reached a high of 0.9% and 0.8% in 1989, but most months ran lower, with some positive months mixed in. But all those Colorado natives kept graduating from high school and college. The unemployment rose to as high as 8.4% in December 1985 and January 1986. The workers who stayed gutted it out. Better times returned in the 1990s.

There is no health crisis keeping people home, no recession triggering major layoffs and no collapse in a pillar of the state economy. So what might be driving the decline in the number of workers?

The easy out is to blame statistical noise. The household survey — used to determine the size of the labor force and the unemployment rate — is subject to revisions. The federal government shutdown in October might have mucked things up. Below-average snowfalls might have reduced demand for resort workers. The list goes on.

But the decline is large and accelerating, and it started before the shutdown. It likely reflects a real shift, said Brian Lewandowski, executive director of the Business Research Division at the Leeds School of Business at the University of Colorado Boulder.

"I think the current softening could be a mixture of both the market (demographics) and policy," he said.

One demographic piece involves more workers retiring. The mirror doesn't lie. Colorado's population is getting older. The long-predicted silver tsunami may finally be sucking workers out of the labor pool. But aging is a slow-moving trend, not akin to an earthquake.

Migration is a more plausible force behind what is happening. Colorado lost 12,100 more people than it gained from other states in the year through June 30, according to a population update Tuesday from the U.S. Census Bureau.

That trend may have accelerated in the second half of the year based on what is happening to the labor force. Colorado's net domestic migration is down sharply since the pandemic. Blame higher housing costs and fewer job opportunities. More longtime residents appear to be picking up and moving out. Last year, Colorado became one of five states with significantly more outbound than inbound moves, according to a survey by United Van Lines.

From the reopening of the economy following the pandemic through 2024, Colorado saw big increases in the number of people arriving from other countries. Migration to Colorado historically has been 80% domestic and 20% international. That ratio flipped this decade, according to the State Demography Office.

In the 12 months through June 30, the state's net international migration of 15,356 was enough to offset the loss of 12,100 domestically last year. The combined number was weak, but it wasn't negative. For the last several years, it appears international migration helped mask the weakness the state was facing on the domestic side.

And the mask has been removed. This is where policy shock comes into play.

Voters, upset with the immigration surge and inflation, elected Donald Trump to office. His administration has moved quickly to shut down flows across the border and remove illegal immigrants. The administration has also tightened down on legal channels of immigration, requiring more vetting and in-person interviews, delaying application processing and even reversing earlier green card approvals.

"The slowdown in U.S. population growth is largely due to a historic decline in net international migration, which dropped from 2.7 million to 1.3 million in the period from July 2024 through June 2025," said Christine Hartley, assistant division chief for Estimates and Projections at the Census Bureau, in a news release Tuesday. "With births and deaths remaining relatively stable compared to the prior year, the sharp decline in net international migration is the main reason for the slower growth rate we see today."

Lewandowski notes that the labor force shrank in a dozen states in December, and 19 states had growth rates below 1%. Wyoming led the country on the downside with a 2.5% decline. Vermont and Wisconsin also dropped more than 2%. Illinois, Virginia and Connecticut had declines above 1%.

"I certainly think the lack of international migration has to be playing a role as we don't have replacements," said Richard Wobbekind, a senior economist with the Business Research Division, of the shrinking labor force.

More older workers are retiring each year. Years of a subdued birth rate mean fewer young adults are entering the workforce. Colorado has become less attractive to young adults living in other states, and with each passing year, there are fewer of them to recruit. Now immigration has been throttled.

That may explain why the state's unemployment rate has managed to drop significantly despite fairly weak job growth. It fell from 4.6% a year ago to 3.8%. Normally, a falling unemployment rate is associated with a strong job market. But job gains are a little over a third of their historical pace since 1990. The last two years have been the weakest outside of a recession.

Over the past year, nonfarm payrolls increased by 23,000, with 18,900 of those jobs coming in the private sector and governments adding 4,100 jobs, according to the December employment report from the Colorado Department of Labor and Employment.

That is only a little better than the 22,100 jobs added in 2024. The pace of hiring, at 0.8%, is one of the slowest outside the last three recessions, but it was double the U.S. rate of 0.4%.

Job growth was enough to push the number of nonfarm workers in the state above 3 million for the first time, according to the report. The U.S. Census Bureau estimated that as of June 30, the state's population had crossed 6 million people. One out of every two residents in the state is collecting a paycheck from an employer who pays premiums for unemployment insurance.

A little over two-thirds of residents over age 16 in Colorado, 66.9% to be precise, described themselves as working or actively looking for work in December. That ratio, called the state's labor force participation rate, has been falling for two years and is now at its lowest level since October 2020. It remains one of the highest rates in the country.

Wobbe kind said he doesn't think the drop in participation explains the shrinkage of the workforce. People aren't dropping out like they tend to do during a downturn.

Instead, the big drop in migration, both domestic and international, might be influencing the share of the overall population that is in the prime working age range. And if working-age adults are leaving, that might explain why the labor force is shrinking.

