The Daily Dish

May Jobs

DOUGLAS HOLTZ-EAKIN | JUNE 1, 2018

In April the market created 164,000 jobs, employment was revised upward by 30,000 for February and March, and the unemployment rate declined to 3.9 percent – the lowest since December 2000. That is the good news. The bad news is that there was no measured employment growth in the household sector; the decline in the unemployment rate was solely because the labor force fell by 236,000 and labor force participation dipped to 62.8 percent. Average hourly earnings grew at an annualized rate of 1.8 percent and are up 2.6 percent from one year earlier. Average weekly hours were flat. In addition to the overall unemployment rate declining to 3.9 percent, unemployment declines were seen nearly across the board. Teenage unemployment fell 0.6 percent, African-American unemployment fell 0.3 percent, Hispanic by 0.3 percent, Asian by 0.3 percent, and women by 0.2. The only uptick was 0.4 percent among those with less than a high school diploma.

Here is a brief summary of the major economic indicators since the last jobs numbers:

- The Producer Price Index for final demand increased 0.1 percent in April;
- The Consumer Price Index increased 0.2 percent in April;
- Real average hourly earnings did not change from March to April;
- Orders for durable goods decreased 1.7 percent in April;
- New home sales decreased 1.5 percent in April;
- The Price Index of U.S. imports increased 0.3 percent in April;
- ISM Non-Manufacturing Index decreased to 56.8 percent in April;
- ISM Manufacturing decreased to 57.3 percent in April;
- Consumer Confidence Index increased from 125.6 to 128.0 in May;
- ADP reported private sector employment increased by 178,000 jobs in May.

The ISM Manufacturing Index for May will be released today at 10 am.

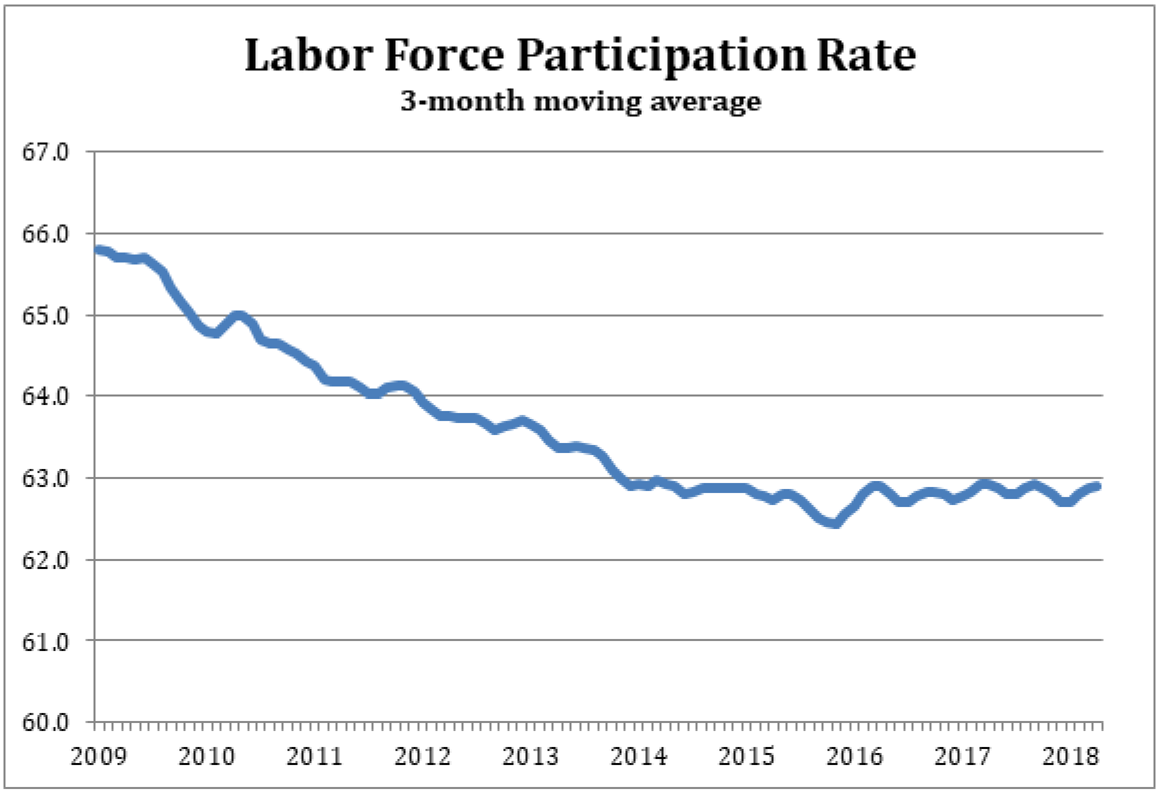
Eakinomics: May Jobs

The national employment statistics for May will be released by the Labor Department today. These figures arrive amid several indicators of strong growth. Gross domestic product in the first quarter was up 2.8 percent over the corresponding quarter of 2017. Regional Federal Reserve bank indices in New York, Philadelphia, Richmond, and Chicago recorded sharp increases in May, and the Bureau of Economic Analysis released a strong report on personal income and outlays. Consistent with these data, the Atlanta Federal Reserve's "GDPNow" tracker puts second quarter growth at 4.7 percent as of May 31.

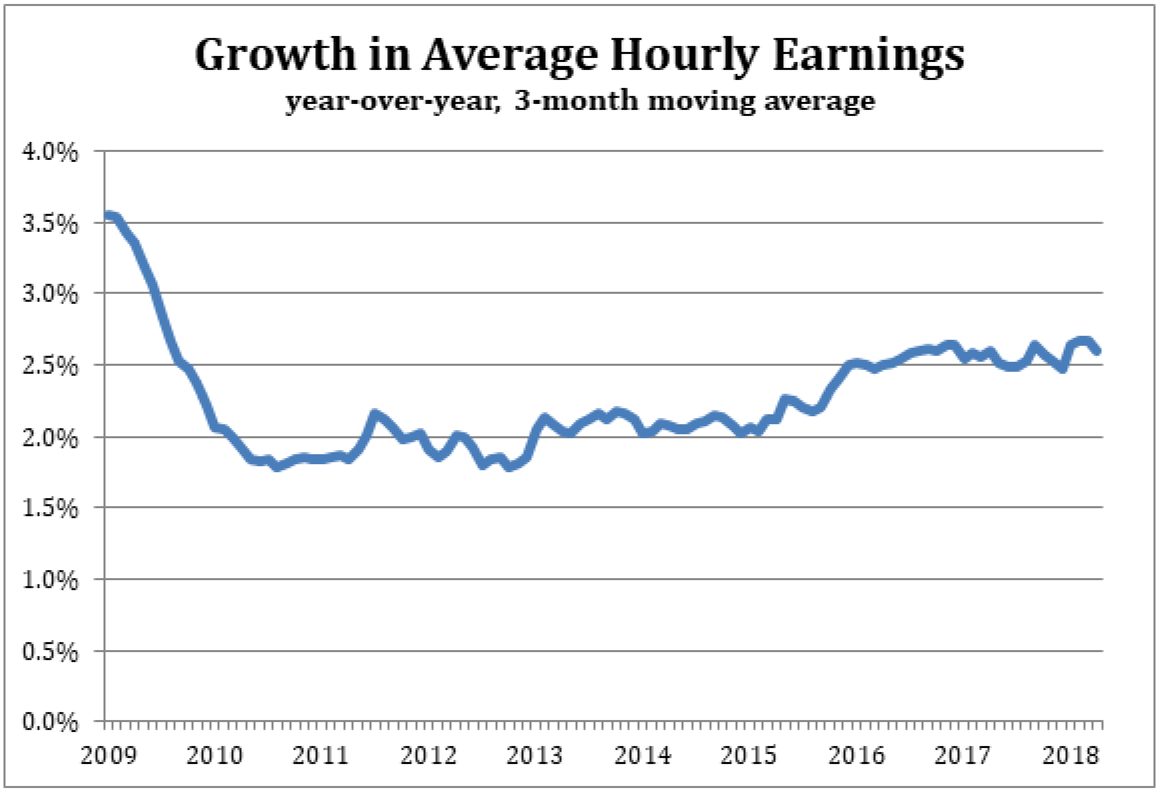
But when the data are released, don't expect this growth to be reflected in a monster number of new jobs created. I expect something in the neighborhood of 155,000 (the ADP Employment Report showed 178,000 for May) because this late in the business cycle the amount of new employment is constrained by the growth in the number of workers.

So skip over the jobs number and unemployment rate (I expect 3.8 percent) and focus on two other figures: the labor force participation rate (LFPR) and growth in wages, specifically average hourly earnings (AHE).

The recent history of the LFPR is displayed below. The majority of the decline from 66 to 63 percent is due to the aging population, but prime-age participation is down as well. A rise in the LFPR would mean less constraint on the supply of workers and the possibility of faster overall job and economic growth.



Ironically, good news on the LFPR may mean less tightness in the labor market and slower growth in AHE. Annual growth in AHE has hovered recently in the vicinity of 2.5 percent (see below). It would be the best news for the middle class to see this growth shift north to 3.0 or 3.5 percent in the next year.



So that's it. Out with the old focus, and in with the new. Wages are the new jobs. Labor force participation is the new unemployment rate. Data at 8:30 am.