Economic Perspective for July 3, 2014: Strong Job Growth

by Ken Rosen and Dan Van Dyke

The Bureau of Labor Statistics reported today that payroll employment gained 288,000 in June of which 262,000 were in the private sector. Additionally, job gains in April and May were revised up a total of 29,000 jobs. The unemployment rate declined 0.2 percentage points to 6.1%. Job gains were widespread across sectors.

Perhaps even more importantly, the employment-to-population ratio, a measure that took a severe hit during the Great Recession and has not recovered, rose 0.3 percentage points to 59.0% during the past year. Although still low compared with the pre-recession rate, the movement is in the right direction, and it indicates that the economy is generating jobs faster than the population is growing, a necessary condition for slack labor market conditions to improve. The change in direction for this important indicator will begin to make it feel more like the economy is recovering.

Without belaboring the first quarter GDP decline of -2.9% (annual rate), the employment data in the first quarter and other indicators are inconsistent with such a steep decline in production. March payroll employment was 569,000 jobs more than in December 2013 for an average monthly gain of 190,000 jobs in the first quarter. Although employment growth accelerated in the second quarter to an average monthly gain of 272,000 jobs, a declining economy does not generate 190,000 jobs per month. We also note that one sector alone subtracted more than 3 percentage points of growth—health care services. This decline may be the result of the vagaries of Medicare compensation to providers. Whatever the reasons, job growth in the first quarter is not consistent with a declining economy, and in the second quarter, employment growth accelerated sharply.

The broadest measure of unemployment, the U-6 rate, which includes people marginally attached to the labor force and people who are involuntarily employed part-time, declined 0.1 percentage points to 12.1% in June. This measure has declined 2.1 percentage points in the past year.

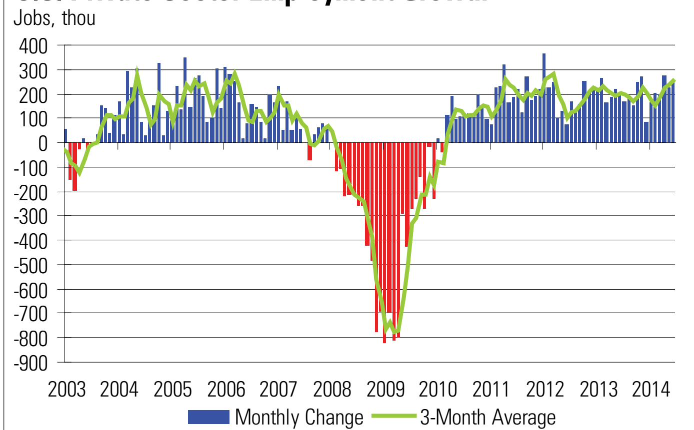
Another measure of labor market health is discouraged workers—those who dropped out of the labor force for lack of finding a job. Discouraged workers have declined by more than one-third in the past year from more than 1 million to 676,000. Improving labor market conditions are keeping more people in the work force.

Even long-term unemployment has declined sharply, another indicator of much improved labor market performance. In June alone, those unemployed for more than 27 weeks declined by 8.7% to 3.08 million. During the past year, the long-term unemployed declined 28.8%.

Wages are still growing slowly. In June, average hourly earnings rose at a 2.3% annual rate, which is not quite enough to keep up with the pace of inflation. Of all the labor market indicators, wage growth is the one weak spot.

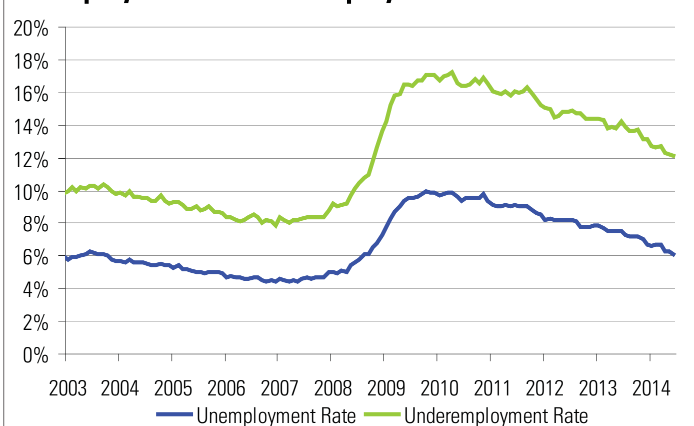
Overall, this report indicates substantial labor market improvement in June. In the entire second quarter, employment growth accelerated sharply to 272,000 jobs per month on average. Other indicators—the long-term unemployed, discouraged workers, the broad measure of unemployment, and most importantly the employment-to-population ratio—all point to stronger labor market conditions. Fed Chairwoman Yellen will have to be digesting what these data are indicating. As the quantitative easing comes to an end almost certainly by year-end 2014, continued acceleration in overall economic growth as indicated by labor market conditions would argue for earlier rather than later lifting of short-term interest rates.

U.S. Private Sector Employment Growth



Note: Latest data as of June 2014
Source: BLS

Unemployment vs. Underemployment



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