The Daily Dish

Grading the Labor Market in 2018

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Eakinomics: Grading the Labor Market in 2018

When politicians talk about the economy, and especially the labor market, it is often nothing but “jobs, jobs, jobs.” But this is almost surely the wrong thing to look for in 2018.

To see this, dig into the December jobs report released by the Bureau of Labor Statistics (BLS) this past Friday. It showed that from December 2016 to December 2017 the non-institutional population of the United States grew by 0.5 percent or 1.4 million. It also showed that the labor force participation rate was unchanged at 62.7 percent. Accordingly, the labor force also grew by 0.5 percent or a total of 861,000. Keeping those in the labor force employed would have required only 72,000 new jobs a month.

The BLS estimates that the United States created 2.1 million jobs in 2017. That gap is a tribute to two things. First, the unemployment rate fell from 4.7 percent to 4.1 percent, accounting for another 1 million jobs during 2017. Second, there is statical imprecision between the relatively small household survey used to calculate the labor force and unemployment rate, and the more robust employer survey used to estimate the number of jobs. But over the long term, the unemployment rate will stabilize and statistical differences will disappear, forcing the two to converge. Looking forward to 2018, for example, if the population grows again at a 0.5 percent annual rate and the labor force population rate remains constant, then jobs will need to rise by only 61,000 a month to keep the unemployment rate constant.

This suggests that a key focus in 2018 should be the labor force participation rate. If labor force participation rises — especially among prime-age workers — it is possible for jobs to grow more rapidly than the underlying population. If not, then any rapid job growth will manifest itself as further declines in unemployment. That would also be a reflection of increasingly fierce competition for the pool of labor. One would expect this to drive up wages — in 2017 average hourly earnings rose by 2.5 percent.

Unfortunately, from November 2016 to November 2017 (December data are not yet available) the Consumer Price Index (CPI) rose by 2.2 percent, so the increased compensation was essentially eaten up by a higher cost of living. This leads to the second key measure of labor market success in 2018: rising productivity. Productivity has been essentially flat, leaving employers in the position of passing along higher labor costs as price increases. But with higher productivity, employers can use greater volume to cover some of the costs without raising prices. When real (inflation-adjusted) wages rise, the standard of living is broadly improved.

If 2018 is anything like 2017 (and 2016, 2015, …) there will be a lot of chatter about jobs. A better way to gauge economic success is via rises in prime-age labor force participation and labor productivity.