The Daily Dish

November Jobs Report

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The Bureau of Labor Statistics released the employment report for November this past Friday. Expectations were for 500,000 to 600,000 additional jobs, so the top-line number of 210,000 new jobs was disappointing and many quickly labeled the entire report evidence of a faltering economy. But having thought about it for a bit, that seems far too strong.

First, there has been a recent pattern of upward revisions – that I will not pretend to be able to explain – in the payroll employment data; the November numbers could easily end up being substantially north of 210,000. Second, even within the payroll survey there is considerable evidence of a strong labor market.

The index of aggregate payrolls rose at an annual rate of 9.2 percent. That is substantial labor demand. Most of it was reflected in more hours of work by the same employees (hours rose at an annual rate of 5.5 percent) and some of it was higher average hourly earnings (which rose at a 3.1 percent rate). That leaves only 0.6 percentage points to be explained by more employees; hence the weak job growth.

That strong labor demand also showed up in the household report, which reported 1.5 million more jobs and 542,000 fewer unemployed, which is how the unemployment rate dropped from 4.6 to 4.2 percent. Usually the payroll report (which has a larger sample) is considered more reliable, but that does not mean one should discard the household survey entirely.

Stepping back, the November report continues a recent pattern of strong labor demand with little growth in the labor supply. In November, the labor force participation rate ticked up 0.2 percent. This small increase does not alleviate the labor supply problems, but is the first upward move in recent months. It bears watching to see if it continues in future months.

Turning to the policy implications, this report is not a sign of weakness. Instead, it is evidence of continued strength in the labor market that needs no further stimulus. In particular, the Fed should quickly stop adding stimulus through quantitative easing and remain focused on getting inflation under control over the medium term.