The Daily Dish

Taking the Pulse of the Economic Expansion

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The July jobs report showed durable strength in the labor market, but policy and demographic headwinds present real risks going forward. The economy showed a healthy payroll gain in July of 164,000, somewhat in line with expectations. The service sector saw the bulk of the gains, posting 133,000 jobs gained for the month. Retail lost 3,600, a decline for the seventh straight month. The unemployment rate held at 3.7 percent, while the labor force participation rate ticked up to 63.0 percent. Between June and July, the labor force has gained over 700,000 potential workers and is now positive for the year. Average hourly earnings were up 8 cents for a 3.2 percent year-over-year gain, while production and non-supervisory workers saw a 4-cent gain for the month, a yearly gain of 3.3 percent.

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

- The Producer Price Index for final demand increased 0.2 percent in July;
- The Consumer Price Index increased 0.3 percent in July;
- Real average hourly earnings decreased 1 cent from June to July;
- Orders for durable goods increased 2.1 percent in July;
- New home sales decreased 12.8 percent in July;
- The Price Index of U.S. imports increased 0.2 percent in July;
- ISM Non-Manufacturing Index increased to 56.4 percent in August;
- ISM Manufacturing decreased to 49.1 percent in August;
- Consumer Confidence Index decreased from 135.8 to 135.1 in August;
- ADP reported private sector employment increased by 195,000 jobs in August.

Eakinomics: Taking the Pulse of the Economic Expansion

Today the Bureau of Labor Statistics (BLS) releases the employment report for August. Most of the attention will be focused on the unemployment rate (currently a very low 3.7 percent) and the number of new jobs created. Unfortunately, these figures present a very narrow — and potentially misleading — snapshot of economic health. As the expansion has continued, the capacity of the economy to draw new workers into the labor force and out of unemployment become steadily more limited. As a result, the potential for “new jobs” gets steadily more limited as well. It is not a sign of any failure that the average number of new jobs has fallen from 223,000 per month in 2018 to 165,000 thus far in 2019. (Note: These data have not been adjusted for the so-called benchmark revision. The BLS has already signaled that the total jobs in the economy will be revised down by about a half-million, but the pattern is what matters.)

Similarly, there is an excessive focus on manufacturing. The news that the ISM Manufacturing Index fell into contraction territory has fed the bull market in recession fears (hat tip to Neil Irwin). But there are over 151 million employees in the United States, and under 13 million are in manufacturing. Put differently, for every worker in manufacturing there are nearly 11 more elsewhere in the economy. Viewed from this perspective, the news that the ISM Non-Manufacturing Index strengthened in August is an important piece of economic data.

Returning to the employment report, a more significant piece of data is the growth of average hourly earnings — especially for production and non-supervisory workers (i.e. blue-collar labor). The year-over-year growth has moved up from 2.9 percent in 2018 to averaging 3.4 percent thus far this year. Strong wage growth is a reflection of the restoration of productivity growth in the U.S. economy (productivity was up at an annual rate of 2.3 percent in the 2nd quarter). It is also the foundation of growth in incomes; labor income is jobs times average hours times wages, and average hours worked have not fluctuated significantly. Since household spending is 70 percent of the economy, labor income is an important input to continued expansion.

It would be nice if the employment report could shed more light on the strength of the household sector, especially in light of the largest fall in consumer confidence since 2012 in August. Other than wage growth, we won’t learn much. One used to be able to infer a bit from jobs created in the retail sector, but since reaching a high in January 2017, retail has shed 176,000 jobs. This seems more attributable to online purchases eating the lunch of brick-and-mortar stores than anything else.

In short, we will learn a bit about the health of the expansion today. But it will be far from a complete picture. We need to know about more than just the jobs.