



U6 Fix

About that Recession...

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The downdraft in equity markets and a series of modestly weaker monthly numbers (consumer confidence, ISM manufacturing, ADP Employment) has fed a storyline about an economy on the brink of a recession.

Not.

The December jobs report is a series of numbers that range from fantastic to fantastical. Take the one “bad” number – the rise in unemployment from 3.7 to 3.9 percent. This is really good news because it reflects a rise in the labor force of 419,000 and a rise in the labor force participation rate from 62.9 to 63.1 percent. Simultaneously BLS flagged that the number of job leavers – a sign of confidence about the next job – rose by 142,000, a statistically significant rise. This is all good news.

The two astonishing numbers were the top-line jobs number – 312,000 new jobs – and the 11 cent rise in average hourly earnings. The latter translates to an annual rate of 4.9 percent (and up 3.2 percent from December 2017). At the same time, jobs were revised up by 58,000 over October and November. The wage number is long overdue, and the jobs number continues to outpace the underlying demography.

The importance of the continued rise in work and labor market participation cannot be overstated. The economy is pulling back into the market those thought to have been unreachable. This is an important, if hard to quantify, aspect of social welfare.

Unemployment rates were up uniformly across races and education; the sole exception was a drop of 0.1 percentage points for college graduates.

Data junkies here’s your fix: The December U-6 (the broadest measure of unemployment) was unchanged at 7.6 percent, as a fall in discouraged workers and those marginally attached to the labor force offset the rise in the base unemployment rate.

The bottom line: Yes, it is one month. But this report is exceptionally strong. It vindicates the Fed’s pace and level of rate increases and offsets the drumbeat of bad economic news. Equity markets may continue to stumble as they try to decipher the global policy landscape, but the underlying Main Street economy in the United States remains solid.