U6 Fix

April Shocker

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In April, the U.S. economy created only 266,000 jobs, well below the anticipated million-jobs increase. The unemployment rate ticked up by 0.1 percent to 6.1 percent. Average hourly earnings, however, rose at an annual rate of 3.5 percent. As one might have expected, the hard-hit leisure and hospitality sector added 331,000 jobs, but those gains were somewhat offset elsewhere, including a loss of 18,000 jobs in manufacturing and a 118,000 decline in temporary help services employment.

The key to understanding the report, however, is the labor force participation rate. There have been increasing reports of difficulty in finding workers. Labor supply is limited by the availability of child care, the need to school at home, fear of the virus and the policy error of supplementing state-level unemployment insurance with $300 a week of federal money. So, while labor force participation rose by 0.2 to 61.7 percent, this merely gets participation back to its August (pandemic) level and remains well below the rate prior to the arrival of the coronavirus.

In short, demand conditions in the economy are fine and improving, but the state of supply is holding growth down.

Turning to the details, evidence of the strength of demand is a drop of 583,000 in the number of people working part time for economic reasons. The pattern of unemployment changes was mixed, with the rise concentrated in a 1.1 percent increase among those with a high school education, and declines for those with more education. Unemployment declined for adult women, teens, Whites and Asians, but rose in other ethnic groups.

Data junkies here’s your fix: the April U-6 (the broadest measure of unemployment) fell from 10.7 to 10.4 percent due to the sharp drop in those working part-time for economic reasons.

The bottom line: The April report was a disappointment, especially from the perspective of closing the 8 million job gap between February 2020 and the present. The policy focus, however, should not be on demand stimulus from fiscal policy or the Federal Reserve. Instead, attention should focus on issues in supply, especially the labor force participation rate.