U6 Fix

Coal in the Labor Market Stocking?

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The two key numbers in the December jobs report are 148,000 new jobs and a 2.5 percent year-over-year increase in average hourly earnings.

In advance of the December jobs report there were two pieces of labor market suspense: (a) how long could job growth outpace the growth of the U.S. population, and (b) when would wage growth begin to broadly accelerate?

Job growth has been slowing. Year over year growth averaged 1.6 percent in the first two quarters of 2017 – the same as 2016 – but only 1.4 percent in the 3rd quarter. Today's 148,000 puts the final tally for 2017 at 1.4 percent.

Still, there is reason to take the December number with a grain of salt because it shows a decline of 20,000 in retail employment. That's hard to swallow and suggests that there must be something odd in the seasonal adjustment.

Turning to wages, average hourly earnings had been growing at between 2.5 percent and 2.7 percent (year over year) for the first part of 2017. The December number put 4th quarter growth at 2.4 percent and 2.5 percent for the entire year.

The unemployment rate and labor force participation rate were unchanged at 4.1 percent and 62.7 percent, respectively. The household report showed modest growth in the labor force, employment, and reduction in the unemployed that largely matched the larger employer survey.

Within the unemployment rates there were some interesting moves. Those with less than a high school diploma saw their unemployment rate bounce up from 5.2 to 6.3 percent – after two successive declines. Teen unemployment fell to 13.6 percent – offsetting the November rise. African-American unemployment reached 6.8 percent, which is the lowest since 1972.

Data junkies here's your fix: the December U-6 (the broadest measure of unemployment) rose to 8.1 percent – due to a rise in those marginally attached to the labor force.

The bottom line: The December report was very much more of the same: steadily moderating growth rate in jobs, steady unemployment, and modest growth in wages. In short, it is the Obama economy redux. It sets the stage for a real test of the Trump Administration policies in 2018, which should show faster growth in productivity, real wages and Gross Domestic Product.