U6 Fix

Hot, Hot, Hot!

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The Toplines

The July report was as hot as DC in the summer. That is, it is expected to be hot, but the reality is sometimes still surprising. The economy created 209,000 jobs in July, with growth widespread and a bit stronger than expected. Jobs in May and June were revised upward. The unemployment rate ticked down by 0.1 to 4.3 percent, even though both the labor force (349,000) and labor force participation (up 0.1 to 62.9 percent) rose.

On the earnings side, average hourly earnings rose by $0.09, which translates into 2.5 percent growth year over year.

Important Population Segments

Among some of the key unemployment rates, adult male unemployment rose to 4.0 percent, Hispanic unemployment dropped to 5.1, and teenage unemployment continued to fall to 13.1 percent.

The Margins of the Labor Market

What happens to the unemployment rate among those without a high school degree? In June their unemployment rate was 6.4 percent; in July it rose to 6.9 percent. This is well above the average of 4.3 percent (those with a college — or more — education are at 2.4 percent), and higher than the 6.3 percent a year ago. Despite the good news, the labor market isn't tightening enough to pull them in even more.

Similarly, what happened to the number working part-time for economic reasons? This is down by 654,000 over the past year, and down another 44,000 in July.

Finally, what will be the changes in discouraged workers and those marginally attached to the labor force? These continue to decline from one year ago, although discouraged workers ticked up a bit.

Data junkies here's your fix: the July U-6 (the broadest measure of unemployment) remained at 8.6 percent due to a fall in the core unemployment rate and a slight rise in discouraged workers.

The bottom line: The July report did not have a single weak number, and varied from solid to strong. Thus, the missing link to faster growth is better improvements in productivity, a shift that would be augmented by regulatory reform, tax reform, and stronger capital spending.