U6 Fix

The Wrong Way to Get to 3.9 Percent Unemployment

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The capacity of the U.S. job market to create employment has been a puzzle recently. From October to March, the unemployment rate stayed unchanged at 4.1 percent – suggesting that the U.S. had reached "full employment". If so, one would expect jobs to rise at roughly the rate of the working-age population – about 130,000 monthly. Instead, the increase has been roughly 200,000 jobs a month, which is due to the ability to draw workers back into the labor force and employment. Between October and March the labor force participation rate rose by 0.2 percent, which accounts for another roughly 80,000 workers a month.

The streak abated somewhat in April as the market created another 164,000 jobs, employment was revised upward by 30,000 for February and March, and the unemployment rate declined to 3.9 percent – the lowest since December 2000.

That is the good news. The bad news is that there was no measured employment growth in the household sector; the decline in the unemployment rate was solely because the labor force fell by 236,000 and labor force participation dipped to 62.8 percent.

Turning to the other key indicators in the report, there was additional disappointment. Average hourly earnings grew at an annualized rate of 1.8 percent and are up 2.6 percent from one year earlier. Average weekly hours were flat.

In addition to the overall unemployment rate declining to 3.9 percent, unemployment declines were seen nearly across the board. Teenage unemployment fell 0.6 percent, African-American unemployment fell 0.3 percent, Hispanic by 0.3 percent, Asian by 0.3 percent and women down 0.2. The only uptick was 0.4 percent among those with less than a high school diploma.

Data junkies here's your fix: the April U-6 (the broadest measure of unemployment) dropped another 0.2 to 7.8 percent the lowest since December 2001. The decline mirrored the reduction in the basic unemployment rate.

The bottom line: Financial markets will be relieved by the absence of wage-push inflation and the move toward more sustainable jobs growth. But the report reveals no acceleration in real wages and no progress on labor force participation – a mixed picture at best. The missing ingredient continues to be productivity and real wage growth.