

Solid job growth strengthens prospect for a Fed rate increase

By Patricia Cohen

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The government reported on Friday that employers added 178,000 workers in November, a solid gain that clears the way for the Federal Reserve to raise the benchmark interest rate when it meets later this month.

The official unemployment rate dropped to its lowest level in more than nine years, 4.6 percent, from 4.9 percent the month before. But average hourly earnings ticked down 0.1 percent.

Revisions to the September and October data removed 2,000 jobs from the employment gains for those months. Over the last three months, increases have averaged 176,000.

“A solid report but not quite as good as the headline numbers would indicate,” said Gus Faucher, deputy chief economist at PNC in Pittsburgh. “There’s mixed news there.”

While payroll additions were steady, he said the drop in hourly earnings offset some previous gains. Also, he noted, the substantial drop in the unemployment rate “came more from a decline in the labor force, more than an increase in household employment.”

For all the arguments about the health of the economy during the presidential race, this latest snapshot of American workers does not radically shift the outlook one way or the other.

The official jobless rate is the lowest since August 2007. A broader measure of unemployment that includes part-time workers who would rather work full time or those too discouraged to keep looking also slipped down, to 9.3 percent from 9.5 percent.

The biggest gains occurred in professional and business services and health care, and the manufacturing and retail sectors lost ground.

“I don’t think there’s any doubt that momentum has been modestly upward,” said Jim O’Sullivan, chief United States economist at High Frequency Economics at High Frequency Economics.

Hourly wages dipped last month, slowing the pace of annual wage growth to 2.5 percent. The labor force participation rate also ticked down, to 62.7 percent. Nonetheless, Mr. O’Sullivan noted that both measure were still running slightly ahead of where they were last year. And the low jobless rate “is a testimony to how strong employment growth has been.”

Considering the jobs gains in 2016, Mr. O’Sullivan noted that at this point, the “bar isn’t very high” for the central bank to follow through with a rate increase, which would be the first in a year.

While Donald J. Trump won the presidential race last month with promises to create more jobs, it is too soon for any election results to have affected the overall employment picture. The Labor Department surveyed employers about changes in their payrolls just a few days after the vote took place.

“It doesn’t have anything to do with the election,” said Mr. Faucher of PNC.

The task of slicing the unemployment rate in half from its recession high of 10 percent has taken seven years.

“This is not something that happens overnight,” said Jonas Prising, chairman and chief executive of the ManpowerGroup, one of the largest recruiters in the United States and abroad.

According to several key measures, President Obama is handing over an unusually strong economy to a successor from the opposing party. There have been 81 consecutive months

of private sector job growth, the longest streak on record.

The tightening labor market, after a frustrating delay, has started to bump wages above the rate of inflation. Housing prices are up, and consumers are expressing the highest levels of confidence in nearly a decade. The American economy grew by a healthy 3.2 percent annual rate during the third quarter of this year.

Such progress led members of the Federal Reserve to conclude at last month's meeting that the case for an increase in the benchmark rate had been "strengthened," and that they would be ready to move "so long as incoming data provided some further evidence of continued progress."

Christopher P. Lu, the deputy secretary of the Labor Department, said, "It's hard to imagine a more stark contrast between the economy that we are handing over to the one that we inherited" in 2008.

Yet for all the statistical improvements, tens of millions of workers continue to feel that the recovery has passed them by. Those without skills are relegated to low-paying positions without steady schedules, security and benefits. Breadwinners who once occupied well-compensated manufacturing jobs are unwilling to settle for minimum-wage service jobs.

"There is a bifurcation of the work force," Mr. Prising of Manpower said. In that sense, the overall average unemployment rate is misleading. Jobless rates among people with the right skills who are able to take advantage of the technology revolution, globalization and other shifts in the economy have fallen below prerecession levels.

For others, the prospects do not look good. "There used to be part of work force that had well-paying jobs that were low- or unskilled," Mr. Prising said. "Those kinds of jobs are very difficult to find today."

"Exactly this same polarization of the work force with the same concerns about the future is what's playing out in all developed countries," he added.

For that reason, some economists argue that fears of inflation are overblown and the Fed should hold off on any increase. "There's no reason to pre-emptively slow the economy down, given that we're starting from less-than-full employment," said Elise Gould, an economist at the left-leaning Economic Policy Institute in Washington. "Right now, the priority should be keeping the economy on track and moving it forward."

In many areas, employers continue to lament their inability to find and retain workers.

Robert A. Funk, chairman and chief executive of Express Employment Professionals, a staffing agency based in Oklahoma City, said jobs orders picked up last month, which he said was not unusual this time of year.

"Recruiting is a tough issue right now in skilled and semiskilled industries," he said, mentioning accounting, information technology, call centers, warehousing and office and professional services.

Mr. Funk said that employers often complained about being unable to find employees with a strong work ethic who met the minimum requirements. "Drug screening is a real challenge in many parts of the country," he said. "Only 30 percent can pass a drug screen in the state of Washington," where marijuana is legal.

At the same time, employers have been reluctant to raise wages to a level that might lure back sidelined workers. The result has been that the country has 5.5 million job openings, a near-record level, but anemic labor force participation rates, at least in comparison with previous decades.

"The challenge out there now is finding workers and keeping the workers you have,"

said Steve Rick, chief economist at CUNA Mutual Group. Those shortages, whatever the cause, are likely to push wages higher next year, he said.

“People are feeling good not only about their current income, but their future income,” Mr. Rick said. “People are spending and firms are

responding to that. They are doing a lot of hiring.”

Mahindra USA, a subsidiary of the Indian automaker and farm equipment company, for example, said it planned to double its work force of 160 people in the United States the next couple of years, according to Susan Moriarty, a Mahindra spokeswoman.