The economy is looking awfully strong

By Neil Irwin
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There are 39 pages in the Labor Department's February report on the employment situation in the United States, but they can be summed up in four words: The economy is humming.

The 313,000 jobs that the nation added in February are far more than are needed to keep up with population growth and continue a surprising burst of job creation to start the year. In the first two months of 2018, the economy has added an average of 276,000 jobs a month, a big step up from 182,000 on average in 2017.

This is not the kind of data you expect in an expansion that is nine years old, or out of a labor market that is already at full employment. It suggests that employers are filling jobs not merely from people they've poached from competitors, but also from more people who have entered the work force. And other data in the latest report matches that idea.

The number of adults not in the labor force fell by a whopping 653,000 people, as the participation rate — the proportion of adults who either have a job or are looking for one — rose a healthy 0.3 percent to 63 percent. The proportion of people in their prime working years (25 to 54) who are working is at its highest level since 2008.

For a couple of years now, there has been a vigorous debate over just how close the American economy is to full capacity, a discussion that has particularly big implications for Fed policy. On one side are those who worry about overheating: Given the 4.1 percent jobless rate (that number was unchanged in February), if the economy is allowed to boom, it will create inflation rather than improvement in real living standards.

The other side of this debate might be called the "let it run" camp, who argue that a lot of good things might happen if the Fed and other policymakers move patiently and see whether some of the damage done by the 2008 recession might repair itself in a sufficiently hot economy.

This is a good day for the "let it run" folks. The huge gains in the labor force and accompanying rise in payrolls are a prime example of the kind of good things that they've been predicting might happen if the economy were less tight than that 4.1 percent jobless number might suggest.

Wall Street has been particularly focused on wage growth as an indicator of which story is more compelling — and more to the point, which story the Fed chairman Jerome Powell and his colleagues at the Fed will find more persuasive. And here, too, the February numbers are in a sweet spot.

In January, when the year-over-year rate of growth in average hourly earnings rose to 2.9 percent, it even sparked a mini-panic in the stock market, contributing to a broad reassessment of inflation risks in the economy.

Never mind. That figure fell back to 2.6 percent in February. The data on wages is a little better than that number would suggest despite the softness in the year-over-year data. Since October, average hourly earnings are up more than 1 percent, which if annualized comes to 3.2 percent, meaning that despite a soft February number this winter has been a time of acceleration in wage growth.

For those who want a robust recovery, it's a delicate balance on wages. On one hand, now that most people who want a job have one, higher pay is the way most Americans would hope to see a reward from a hot economy. But as stock investors correctly concluded last month, if wages start rising too fast given weak gains in worker productivity, it would probably prompt Mr. Powell and his colleagues to tap the brakes on the economy a little harder (that is, raise interest rates more than they would otherwise).

But the February numbers are a delicious sweet spot for the economy. Many more people are working, including people who hadn't even been in the labor force. If that trend continues — and it's worth adding the usual caveat that each month's jobs numbers are subject to revision and statistical error — there's no reason to think this expansion is reaching its natural end.

Yes, it would be nice to see paychecks rise faster, but the saving grace of the fact that they aren't is that it allows the Fed a little more room for patience, strengthening the arguments of the "let it run" faction inside the central bank.

Nine years into an economic expansion, jobs reports don't get much better than this.