U.S. added 145,000 jobs in December; Unemployment at 3.5%

The Labor Department report suggests that the economy ended 2019 on a steady footing

By Patricia Cohen
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The labor market is still robust

Hiring for the final month of 2019 capped a year of steady but slowing gains in employment, the latest evidence that the American labor market has not run out of breath.

Sluggish growth and uncertainty abroad, combined with a maturing labor market at home, contributed to slimmer payroll gains last year, said Gregory Daco, the chief United States economist at Oxford Economics.

But cooling job creation is to be expected in the 11th year of an economic expansion, and as the government's report, released Friday, showed, the slowdown has been gradual.

There were weak spots. Revisions for the previous two months reduced last year's total gains by 14,000 jobs. And the struggling manufacturing sector lost 12,000 positions in December.

The average monthly gains for the last three months of the year were 184,000, on par with the rest of the year. For the full year, the economy added 2.1 million jobs, fewer than the 2.7 million created in 2018, but more than enough to handily outpace population growth. It is the smallest annual increase since 2011.

"I think 2019 was a year of consolidation," Mr. Daco said. "We had relatively strong and steady job growth over the year despite a number of headwinds including a trade war with China, weaker global activity and heightened policy uncertainty."

Going forward, Mr. Daco said he expected average monthly job growth to drop to 125,000 this year. "I know it's hard to get accustomed to," he said, "but that's still enough to provide for a stable unemployment rate and provide for people coming back into the labor force."

The labor force participation rate was steady at 62.3 percent in December — at the top of the post-recession range, even though it's lower than before the financial crisis. Many of the new entrants have been women, who now make up a majority of nonfarm payrolls and dominate sectors that are expanding fastest, like health care.

A broader measure of unemployment — including part-time workers who would prefer full-time jobs, and those too discouraged to even bother looking for work — fell to 6.7 percent, the lowest level since the mid-1990s, when the Labor Department started publishing that statistic.

Stocks were little changed on Friday after the report. Yields on Treasury bonds fell, suggesting that the report dampened the outlook for growth and inflation slightly. Shortly before noon, the yield on the 10-year Treasury note was 1.82 percent.

Wage growth has been somewhat disappointing

Perhaps the most discouraging news in the report was the anemic wage growth, amounting to just 2.9 percent over the past 12 months — far below the 3.4 percent peak reached in February, and down from the 3.3 percent year-over-year average in December 2018.

"It's easier to get a job than a raise in this economy," said Diane Swonk, chief economist at Grant Thornton. "Something that the Fed has been humbled by is how little wage acceleration there's been," she added, referring to the Federal Reserve.

The report is likely to encourage policymakers at the Fed to stick to their wait-and-see approach on further cuts to the central bank's benchmark interest rate.

The labor squeeze has helped workers at the lowest end of the pay scale, pushing wage increases above the overall average. Minimum wage increases in 21 states and 26 cities and counties that either went into effect this month or are scheduled for later this year could help to further pull up paychecks at the bottom.

By contrast, wage growth for managers slowed in December.

Consumer spending is the key pillar of the economy, and it depends on growing incomes.

The slowdown in wage growth is puzzling considering that the jobless rate has been below 4 percent for nearly two years. Employers routinely lament their inability to find workers at the wages they are offering. Finding qualified workers was the top challenge cited by small-business owners in December, according to a monthly survey by the National Federation of Independent Business.

Consumer confidence continues to float at high levels, but businesses may be keeping wage growth down because many owners say they fear that higher prices would chase away customers.

The flow of more Americans into the job market may also be damping wages. About three-fourths of new hires were not even looking for work the previous month.

"It's been slowing over the last several months," Elise Gould, an economist at the Economic Policy Institute, a liberal research organization in Washington, said of wage growth.

"We haven't really seen any changes in the labor market that would explain that," she said. "Lots of businesses are showing profits, but we're not seeing the kind of capital investments that we'd thought we'd see."

The gains have been uneven

The job totals can mask wide differences based on location, skills and industry.

Health care, transportation and logistics, and professional and business services flourished last year.

The retail sector, which has struggled for much of 2019, was buoyed by the holiday season and added 41,000 jobs in December. But announced store closings could reverse those gains in the coming months.

Construction, mining and manufacturing, industries that tend to be more affected by the global economy, have also struggled. Construction bounced back a bit in December, adding 20,000 jobs, while mining slumped again.

Even so, there are pockets in these goods-producing sectors that are doing well, like those related to electrical vehicles and charging docks, said Julia Pollak, a labor economist for the employment site ZipRecruiter.

"Manufacturing is not dead, but its location will shift," she said, noting that new plants do not necessarily replace closed ones.

There has been little sign that this weakness has spread to the much larger service sector.

Ms. Pollak pointed to other patterns: "The highest job growth and wage growth have been in nine states."

Among the top four, Utah, Nevada, Arizona and Colorado, the expansion has been driven by the technology industry. Those states have benefited in part because they have lower housing costs than Silicon Valley, Ms. Pollak said.

Their less congested roads and airspace are also a draw, especially for companies that are building and testing technologies like drones and driverless cars, she added.

Even companies based in California — still a powerhouse of job creation — are locating their customer service and call centers in these nearby states.

On the West Coast, Washington is also notching strong gains, Ms. Pollak said, while in the South, Florida, Alabama and South Carolina have managed to combine job and wage gains.

“Yes, I do plan on hiring,” said Robert Herman, who owns a mobile pet grooming franchise in Charleston, S.C., where the jobless rate was 1.8 percent in November. “We’re doing great.”

This year, he said he planned to add a fifth van to his fleet of moving dog and cat salons and hire two more employees. Between commission and tips, he said his workers earned an average of $20 to $25 an hour.

There are pockets of pain across the economy

The Labor Department this week also reported a dip in the number of new people filing for unemployment, a figure that remains at historically low levels. Nonetheless, “over all, the job cuts that we saw in 2019 were fairly high, higher than you would expect,” said Andy Challenger, a vice president at Challenger, Gray & Christmas, an outplacement firm that tracks layoff announcements.

Industrial goods and automobile manufacturers were the hardest hit, in part because of the trade war. “As rosy as the numbers look from a high level, there’s still pain out there, jobs cuts that are happening, industries that are struggling and people losing their jobs,” Mr. Challenger said.

Because the company’s survey tracks layoff announcements — as opposed to jobs that have been eliminated — he said that it was “a bit more forward-looking” than the Labor Department’s figures. Plans can change, he noted, but the results “point to sentiments, if they think they’re going to cut.”

The persistent uncertainty, which nudges businesses to be more cautious in hiring and investment, is far from clearing.

There has been progress on the trade front — the United States and China have reached the first phase of an agreement that officials are expected to sign next week. But two-thirds of Chinese imports, worth $360 billion, are still subject to tariffs. And President Trump has said he will impose more tariffs on imports from Europe this month.

Adding to the unsettled atmosphere are unexpected global developments, like the threat of a broader clash between the United States and Iran after the president’s decision to kill a top Iranian general. Iran struck American air bases in Iraq in retaliation this week, but the attack is said to have resulted in no casualties, and tensions have eased.

The jobs numbers will be revised

The department’s monthly report is based on two surveys, one of employers and the other of households. Economists there are continually updating their results, and Friday’s report takes account of some very minor adjustments.

Much more substantial revisions are scheduled to be released next month, when the government publishes its annual update of payroll gains. Preliminary data released over the summer indicated that job growth through last spring was weaker by about 500,000 jobs than initial estimates. That will change some year-to-year comparisons.