



 COMMENTARY ECONOMICS

2016 Rings In Continued Job Market Progress

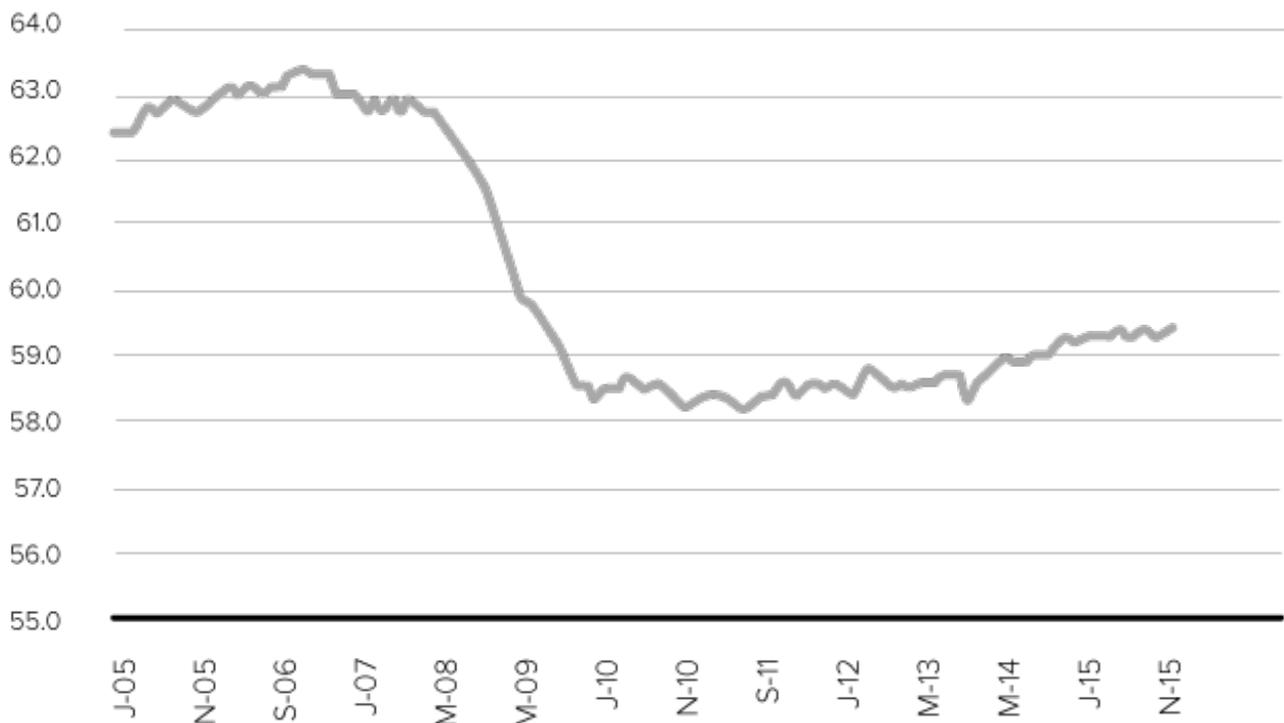
JANUARY 08, 2016

Today's very robust Labor Department employment report will be received by many as good news, especially after a week in which the economic slowdown in China reverberated in the United States and around the world. The United States economy has experienced sixty-three consecutive months of job growth, and the nation's employers added 292,000 jobs in December, beating predictions and consistent with an economy that is strongly growing.

However, there is still a long way to go before the American economy is truly delivering shared prosperity for working families. The jobless rate has drifted down to 5 percent and plateaued there for the past three months, meaning headline data has masked remaining slack in the labor market. Fewer than three out of five working age Americans currently holds a job (59.5 percent), which is significantly short of the employment rate reached before the start of the great recession (63.4 percent). This decrease includes both those who are unemployed and those who have dropped out of the labor force and stopped searching altogether.

In short, the impressive growth in jobs in recent years has still not been enough to make up lost ground during the great recession and the growth in the population. The decline in employment is equivalent to nearly 10 million fewer working-age adults with jobs than would have been the case if the job market were as strong on this measure as it was before the recession. Another strong year of job growth will be necessary to bring this measure up to where it should be in a healthy economy.

EMPLOYMENT POPULATION RATIO 2005-2015



Source: US Department of Labor, Data retrieved on January 8, 2016, www.bls.gov.

Along similar lines, the current average duration of unemployment is much longer than it typically has been in prior economic recoveries, indicating lingering weakness and mismatches in the types of job opportunities available. Jobless workers have been looking for work for an average of 27.6 weeks—for perspective, this number dropped to as low as 12 weeks during the recovery of 2001 and as low as 16.5 week in 2007. While African-American unemployment fell in December to 8.3 percent in December 2015, it had dropped to to as low as 7 percent the last time economic growth was robust enough to engender economic gains in every corner of the economy (April 2000), and we should settle for nothing less today. Latino unemployment is less severe, but still of major concern at 6.3 percent and with much less progress than the percent rate reached several times from 2006 to 2008.

In this environment, the Fed should be cautious as it plans future interest rate increases. In December, both weekly and hourly earnings registered small declines. Wages are up by a modest 2.5 percent in nominal terms in 2015 (translating into an average of less than 2 percent increase in the purchasing power of the average worker over the past year). This growth alone is not enough to produce inflation that would be of concern to the economy. Clearly, the type of job growth we have seen still has not accumulated enough pressure for workers to gain significant leverage to demand higher wages.

Moves to cool the economy before wage and employment reach their full potential would prevent this economic recovery from truly having a positive impact on the bottom lines of American families. The recent momentum for \$15 minimum wages will give workers additional leverage to gain the kind of earnings that economic growth alone does not seem able to deliver.

Working families best hope is that international economic challenges and domestic policy actions won't get in the way of more reports like today's, and will begin to feel the impact of the economic recovery more clearly in their pocketbooks.