August Payroll Employment

September 05, 2014

The economy added 142,000 jobs in August. The private sector created 134,000 jobs. Manufacturing was stalled and retail fell. The June and July numbers were revised down by 28,000. The unemployment rate dipped to 6.1 percent from 6.2 percent as labor force fell.

Employment gains got off track in August and the jobless rate fell for the wrong reason as the labor force fell. However, this is a temporary setback; both the economy and jobs are trending up at a moderate pace. Manufacturing is on a tear. Car sales are humming. Service sectors from hospitals to hospitality are showing zip. Small businesses are more optimistic about hiring.

Aside from the August job number, clearly not all is well on the job front. The analysis of the labor market has become more complicated as the 19 major labor market indicators in the Federal Reserve's factor model send conflicting signals. In the future, the focus of the analysis should be on the sub-components of the labor market in addition to the headline statistics.

The slow growth in wages is one of the factors casting doubts over the labor market. Some argue that real wages have been rising less rapidly than productivity implying that wages will catch up sooner or later. But, the slow wage gains could imply that a significant portion of the slack in the labor market is structural rather than cyclical. Disinflation psychology, not inflation psychology is still pervasive in the market place. Wags gains may not accelerate anytime soon.

Involuntary part-time unemployment is another worrisome statistic. The large number of the part-timers at about 5 million is another indication that the problem here is largely structural rather than cyclical. For example, Chairwoman Yellen mentioned that the growing importance of service, which tends to hire more part-timers, is a reason for the large number of part time jobs.

The recognition that the structural, not cyclical, forces are holding back the progress of the labor market leads to the conclusion that the central bank's factor model encompassing 19 indicators will improve gradually but slowly in coming months.

The setback in the August job number and the behavior of the sub-components indicate that the lift-off of the interest rate during the first half of 2015 is not a fait acompli. The tapering will end in October as expected, but the FOMC will be in no hurry to hike the interest rate. Policy actions are data dependent.