December Jobs Report

January 09, 2015

The economy added 252,000 jobs in December. The job gains were widespread throughout the economy. The October and November numbers were revised up by 50,000. The unemployment rate dropped to 5.6 percent. Wage gains fell 0.2 percent.

The U.S. economy is the leader of the pact in economic and job growth compared to our trading partners. Europe and Japan and even China, which is experiencing economic slowdown, views America with envy.

A missing piece, however, is wage inflation. Sooner or later the combination of tightening labor market and the growing optimism among employers regarding future economic outlook should push wages upward. In recent months, small businesses have changed their attitudes and have begun to grant higher wages for their employees.

In the meantime, the increase in aggregate hours worked and the lower gasoline prices should boost consumer spending.

More good news is in this report. Employment gains are broadly based. The economy has begun to add higher paying jobs including manufacturing, construction and professional-service jobs. The number of hours worked per week is moving up indicating that the demand for labor is rising. Typically, businesses increase hours worked leading to more hiring.

In addition to the low wage gain, there are other flies in the ointment. People are still dropping out of the labor force contributing to the lower jobless rate. During the recent recovery, a significant portion of the decline in the jobless rate was explained by the fall in the labor participation rate. This casts doubt on the reliability of the unemployment rate as a reliable indicator of economic strength.

The FOMC, which is dominated by the doves, will view this as a mixed report and say there remains meaningful underutilization of labor resources. This report is not a reason to accelerate the lift-off in the interest rate.

Jobs are important, but there are other important considerations for the central bank. The stronger dollar will hold down inflation giving more time to the Fed before raising the interest rate. The anemic rate of economic growth in Europe and the growing concern about a possible deflation there are other considerations.