Payroll Data for January

The economy added only 151,000 jobs in January breaking a rising trend. Gains were concentrated in services including retailing and health care. The November and December numbers were revised down by 2,000. The unemployment rate fell to 4.9 percent the lowest in 8 years. Wage gains rose at a faster pace of 0.5 percent for the month amounting to 2.5 percent from a year ago.

The job market has hit an inflection point downshifting to slower gains. There have been a number of bellwethers pointing to the slowdown in the job market. ISM has stayed below 50 for four months in a row and industrial production has been trending down reflecting manufacturing weakness even though manufacturing added 29,000 jobs in January. The strong dollar and the tepid economy overseas hurt exports. The dollar's strength has been a major headwind for the economy equivalent to higher interest rate. The plunge in the price of oil cut capital spending related to exploration and production reducing energy-related work. The rising jobless claims were other telltale signs of sluggish job market.

Even without these problems, employment gains were poised to decelerate. At 4.9 percent, the economy is approaching full employment and the pool of available people is shrinking. The labor participation rate continues to ratchet down to multi-decade lows. Employers are having hard time matching labor supply and demand. In the future, employment gains will be closer to 100,000 per month. Consequently, employers have increased the numbers of weekly hours worked.

Wages have begun to rise at a faster pace. As the economy marches toward full employment, the wage puzzle may have begun to fall in place. But it is too early to tell if the Phillips curve is operational now. There have been many explanations on why the Curve has been inoperable so far in this recovery, but low inflation expectations emanating from the Great Recession is the most plausible reason. History shows that economic growth and inflation in the aftermath of financial crisis increase very slowly and gradually often taking decades for inflation to return to normal rates. Stay tuned.

In hindsight, the December liftoff in the interest rate by the FOMC could have been delayed. As Bernanke wrote in his latest book, "ninety-five percent of monetary policy is communication and only five percent is the interest rate". Unfortunately, the FOMC may have sent the wrong message roiling financial markets and reducing the 10-year Treasury yield to multi-year lows.

The rising value of the dollar is equivalent to higher interest rate. The combination of the strong dollar and the message the central bank has sent represents significant restraint on the economy as evidenced by the 0.7 percent increase in economic growth during the final quarter of 2015. The FOMC should pass in March holding the interest rate stable.

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