Payroll Data for July 2016

Summary

The economy added 255,000 jobs in July. The strength in the job market was widespread throughout the economy. The May and June numbers were revised up significantly. The unemployment rate stayed at 4.9 percent despite the increase of 409,000 in labor force. Wages rose 0.3 percent for the month or 2.6 percent form a year ago.

Analysis

The labor market is in full bloom. After the whipsaw in May and June, the job market is on solid footing. The pace of hiring has matched the average of 282,000 during the final quarter of 2015, supporting healthy consumer spending and economic growth.

The jobless rate remained steady as people gained confidence in the job market and entered the labor force which increased 407,000. The labor participation rate edged up again to 62.8 percent from 62.7 percent, a welcome trend after a long period of declines.

A continuing encouragement in the report is wage gains rising 0.3 percent or 2.6 percent from a year ago. As the labor market tightens, employers are having to hike wages to attract both skilled and unskilled workers. This is especially true for small businesses. Wages are rising at a much faster rate at small businesses than at larger counterparts. However, increases in labor
costs will have limits. As baby boomers, which earn high wages, are replaced by lower paid younger workers, the average will continue to rise slowly despite the tight labor market.

The report indicates that consumer spending, which was the primary strength of the economy during the second quarter will continue. The increases in employment show more income and higher confidence. Businesses, which have been pessimistic cutting capital spending and running down inventories, are likely to respond to consumer optimism and increase spending.

Today’s job report is important for FOMC. If the next payroll report for September is solid, there is a good possibility of a hike at the September meeting, well before the November ballot. Nevertheless, there are still uncertainties including political, economic and global. Energy prices are falling again and the 2 percent inflation target is unlikely to be met in the near future. Under the circumstances, there is no rush. The Committee may decide to wait a while longer.