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Economics Group

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December Employment: Good Report with Better Wages

Continued job gains at a moderating pace, rising wages and the unemployment rate at full employment signal a tight labor market. The case for further Fed moves remains in place.

Job Gains Support FOMC Move

Nonfarm payrolls rose 156,000 in December. Job growth has averaged 165,000 over the past three months and 180,000 over the past twelve months. Since 2014, annual monthly job gains have slowed as wages have risen and the unemployment rate has approached full employment. These patterns support rising wage pressures as worker shortages develop. To sustain faster economic growth in the years ahead, better skills and higher labor force participation will be needed.

A bounce back in manufacturing payrolls (up 17,000) and the average workweek (up 0.1 hours) is further evidence that activity in the factory sector is stabilizing. Ex-manufacturing, there has been broad-based strength in job growth over the past year (top chart). These gains are consistent with solid consumer spending and continued economic growth. The unemployment rate rose a touch to 4.7 percent but remains within the range considered full employment. Since the jobless rate is still within the FOMC's range for the long-run, indicating the labor market continues to tighten, the FOMC remains on track to raise the funds rate. We expect the first move in the second quarter of this year.

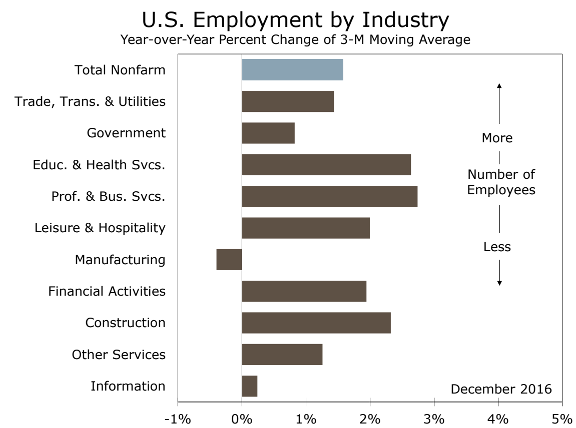
Higher Hourly Earnings Consistent with Tight Labor Market

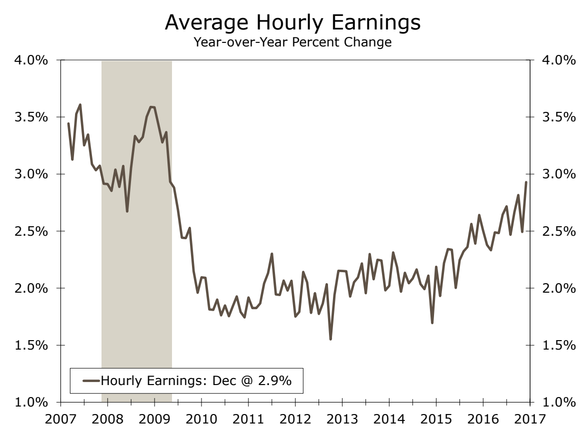
After ticking down in November, average hourly earnings rebounded 0.4 percent last month. That brings the year-over-year rate, at 2.9 percent, to a fresh cycle high (middle chart). While the December reading was likely flattered by calendar quirks (average hourly earnings tend rise more in months when the survey week includes the 15th of the month), the trend remains solidly upward. When combined with the pickup in average hourly earnings, the slowdown in job growth is consistent with employers having more difficulty finding workers and a tightening labor market.

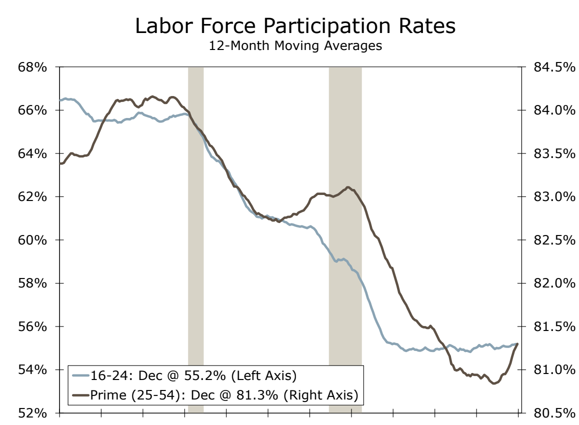
Want Growth? Raise Labor Force Participation Rates

Growth does not live by stimulating aggregate demand alone. To achieve and maintain economic growth over three percent without accelerating prices, policymakers are challenged to stimulate the supply-side of the economy. The labor force participation rate rose a tick in December, including among prime-age workers. However, as illustrated in the bottom graph, a full rebound for prime-age workers remains a ways off.

There is no quick fix. One approach is to improve the quality of the workforce—particularly by training high school graduates for the challenges ahead. Second, another approach includes ensuring that students complete high school and that they have the skills required for entry level occupations. Finally, focusing on continuing education for existing workers to keep up with the challenges ahead would aid potential growth. There are no shortcuts to turn around a long downtrend.







Source: U.S. Department of Labor and Wells Fargo Securities

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