



Economics Group

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Employment: Private Jobs Up, Participation an Issue

Private sector job growth continued in December with a gain of 103K across many sectors. Aggregate hours rose suggesting positive growth ahead. Participation rates remain a puzzle for the employment picture.

Job Gains Reinforce Outlook for Economic Expansion

Growth in employment for both the manufacturing and service sectors corroborate the economic expansion message from orders, the ISM indices and the upswing in the equity market. The expansion has legs and our outlook is for three percent plus growth in the year ahead.

Job gains in the service sector were widespread in December with improvement in retail, business services, education & health and leisure. These gains are consistent with the expansionary readings we have seen in the ISM non-manufacturing survey. In addition, manufacturing jobs grew by 10,000 in December which is consistent with the employment readings in the ISM manufacturing survey. Construction jobs fell.

Meanwhile, the average workweek held at 34.3 hours. With rising manufacturing jobs, this suggests an increase in labor input into production and would be consistent with further growth in the economy. Across the economy, gains in aggregate hours worked of 2.3 percent over the last three months suggest continued economic growth ahead.

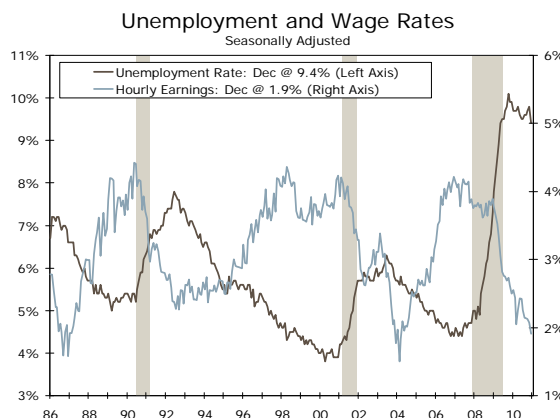
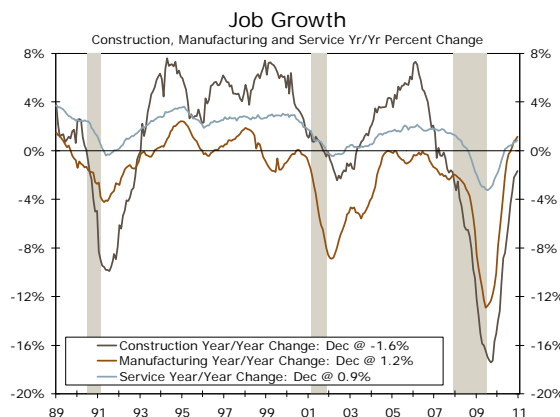
Unemployment and Wages

In December, the unemployment rate fell to 9.4 percent which may signal the peak in this politically sensitive, but economically lagging, indicator. Persistently high unemployment represents a significant hurdle for consumer confidence and therefore consumer purchases of autos and housing. Unfortunately, the drop in unemployment is a mixed signal since the decline reflected, in part, a sharp drop in the labor force. This is consistent with our concern about the decline in the participation rate (see below). Meanwhile, wage gains remain modest at this stage of the business cycle. This is not surprising since nominal wages tend to lag the business cycle. Our expectation is that wages will pick up steam in the year ahead although the pace of gains, much like most of the economy, will remain subdued compared to the post-WWII period.

Labor Force Participation: Cyclical and Structural Components

Hidden behind the unemployment rate stands the participation rate and while this number receives very little media exposure, this series has both significant economic and political implications. Simply, the participation rate is the ratio between people in the labor force (whether employed or unemployed) and the population.

As evidenced in the bottom graph, labor force participation has been declining since the 2001 recession and especially sharply during the current recession. Surprisingly to some the decline has been particularly sharp for both male and female workers between the ages of 16 and 24. Lower participation rates reduce the unemployment rate in the short run, but hold back potential economic growth over time—not a good combination.



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