

Joint Economic Committee

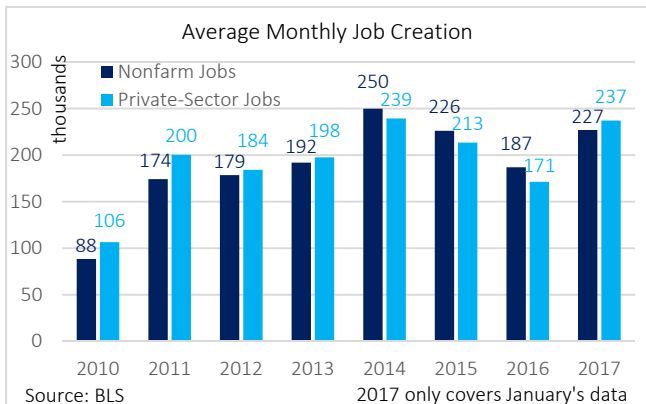
Representative Pat Tiberi, Chairman Senator Mike Lee, Vice Chairman

February 3, 2017

January 2017 Jobs Review

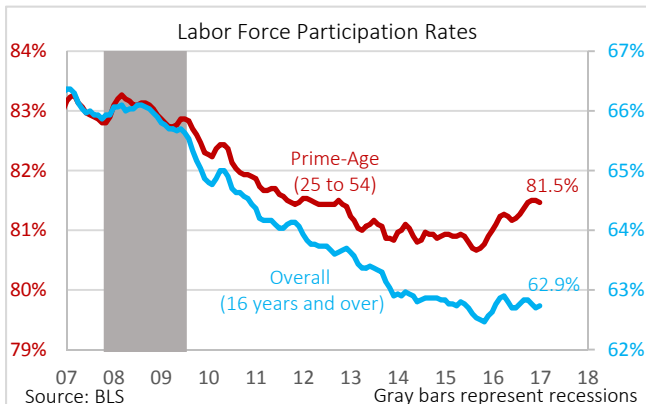
Jobs Review Snapshot

- 227,000 nonfarm jobs were added, which greatly exceeded expectations.
- Despite the perception that employment is near its potential, January demonstrated room for improvement.
- JEC estimates that there may be over 1.8 million prime-age workers on the sidelines.

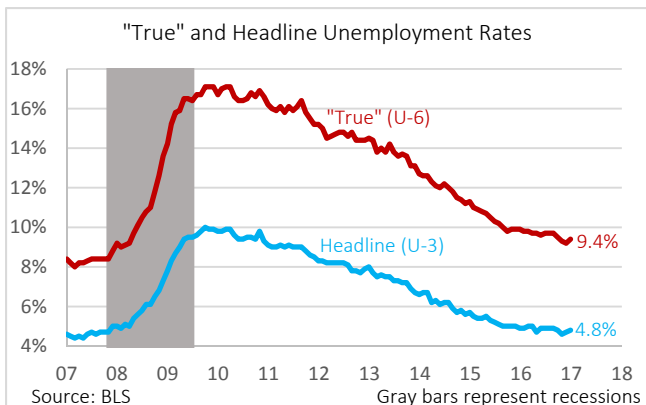


Details

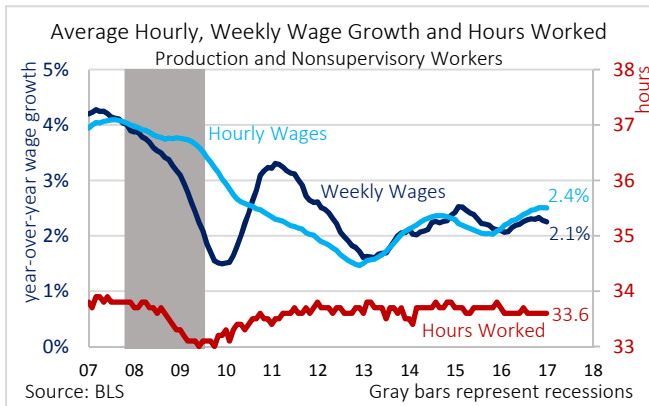
Bureau of Labor Statistics (BLS) reports a 227,000 gain in nonfarm payroll jobs, of which private payroll jobs increased by 237,000. The largest job gains came from the retail trade (+45,900), professional and business services (+39,000), and construction (+36,000) industries. The worst-performing industries were utilities (-600), nondurable goods manufacturing (-1,000), and transportation and warehousing (-4,000). The government sector lost 10,000 jobs.



The overall labor force participation rate (LFPR) increased from 62.7% to 62.9% (see Noteworthy section below). Because the population is aging, this measure's value is difficult to interpret. Therefore, JEC considers the prime-age LFPR, which measures the ratio of those aged 25 to 54 who are currently employed or have sought work in the past four weeks, as a better indicator. During the previous business cycle's expansion period, this averaged 83%. While trending upward recently, it still registers only 81.5%. Applying the previous expansion's average LFPR to the current prime-age population and comparing it to the current prime-age labor force suggests there is room for over 1.8 million more workers.



The headline unemployment rate (U-3) increased from 4.7% to 4.8%. Because this metric's significance depends on a stable LFPR, the U-3's relevance has diminished since the Great Recession. Therefore, JEC also examines the "true" unemployment rate (U-6), which includes those actively seeking work in the last four weeks (the measure used in U-3), those who would like a job but do not believe any are available to them (discouraged workers), and those persons who want full-time work but can only find part-time work for economic reasons. In January, it increased from 9.2% to 9.4%. Its overall level indicates labor market slack remains.



Average hourly earnings (AHE) of all private-industry workers are 2.5% higher than last year, while average weekly earnings (AWE) are 1.9% higher.¹ This difference indicates that hours worked has decreased. The AHE and AWE of production and nonsupervisory workers increased from last year by 2.4% and 2.1%, respectively. JEC prefers these workers' AHE/AWE measures as they better represent the population's situation.² During the previous expansion these workers' earnings each averaged 3%, while averaging only 2.1% and 2.4%, respectively, during the current expansion. However, since late 2015, wage growth has slowly ticked upward suggesting that inflationary pressures are firming.

January 2017 Jobs Review	December (Original)	December (Revised)	January Forecast	January Data
Sources: BLS, Bloomberg Econoday				
<i>Establishment Survey</i>				
Nonfarm Payrolls Change	156,000	157,000	175,000	227,000
Private Payrolls Change	144,000	165,000	180,000	237,000
Average Hourly Earnings: All Employees (Month-to-Month % Chg.)	0.4%	0.2%	0.3%	0.1%
<i>Household Survey</i>				
Unemployment Rate (U-3)	4.7%	--	4.7%	4.8%
Change in Number of Unemployed	120,000	--	--	106,000
Change in Labor Force	184,000	--	--	76,000
"True" Unemployment Rate (U-6)	9.2%	--	--	9.4%
Labor Force Participation Rate	62.7%	--	--	62.9%
16 to 64 years of age	73.0%	--	--	73.0%
25 to 54 years of age (prime-age)	81.5%	--	--	81.5%
Employment-to-Population Ratio	59.7%	--	--	59.9%
Population Growth (16 years and older)	202,000	--	--	-660,000*

*Refer to Noteworthy section for details

Context

Because of how weak this current economic expansion has been since beginning in June 2009, conventional labor market metrics, such as the headline unemployment rate (U-3), have diminished relevance. The low LFPR of prime-age workers, the relatively elevated "true" unemployment rate (U-6), and the sluggish wage growth suggest the labor market has room to grow. Although wage growth is sluggish, it has recently been drifting slowly upward. This implies that inflationary pressures are firming, and that monetary policy cannot pull the unemployment rate down any further. Consequently, any remaining labor market slack must be remedied with supply-side policies that reform our complicated, anti-growth tax code and overhaul our burdensome regulatory system.

Noteworthy

BLS implemented its annual revisions to its benchmarks. It reports that the revisions had no major impact on the establishment survey data (nonfarm jobs numbers and wage and earnings numbers). Revisions to the household survey (unemployment rate and LFPR) resulted in population estimates shrinking by 660,000, which has ticked up the LFPR and the employment-to-population ratio. BLS estimates the actual change in population growth between December and January to be +171,000. Nonfarm payroll job growth for November was substantially revised down from +204,000 to +164,000 (final estimate). For December, it was revised up from +156,000 to +157,000 (second estimate). The February Employment Situation release is scheduled for Friday, March 10 at 8:30am.

¹ These measurements consist only of gross wages and salary and do not account for non-monetary benefits and compensation. They are not adjusted for inflation. AWE accounts for the average number of hours worked while AHE does not.

² Production and nonsupervisory workers account for over 82% of all private-sector employees.