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JOBS RECOVERY REACHES PLATEAU, POSING A CHALLENGE FOR FORECASTERS

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After a half-decade of steady gains, the U.S. labor market appears to be leveling off. What that plateau means for the economy's trajectory is one of the biggest questions hanging over policy makers and investors.

Hiring is consistent but slower than in recent years, the unemployment rate is no longer falling and layoffs are holding at a historically low level. But participation in the workforce is stuck near a 40-year low.

If the moderate hiring rate continues, that should keep the unemployment rate in check by absorbing new entrants to the workforce. That's a good thing, but it might not be enough to deliver significantly higher paychecks for workers or draw discouraged Americans back into the labor force.

Mixed signals from the labor data pose a challenge to companies forecasting future demand, Federal Reserve policy makers attempting to set interest rates and investors trying to assess the climate ahead.

The labor market "is close to as good as it gets," given the underlying fundamentals of the economy, said IHS Markit Chief Economist Nariman Behravesh. "But averages hide a lot of problems. A lot of low-skilled and blue-collar workers have been left behind. They might have a job, but it pays less than the job they had before the recession."

The dichotomy is presented frequently in the presidential race. Democrat Hillary Clinton positions herself as the candidate to maintain President Barack Obama's policies that delivered a long, relatively steady expansion. Republican Donald Trump seizes on the frustration of Americans who feel left out of that recovery.

The unemployment rate peaked at 10% in October 2009, just after the recession ended and less than a year after Mr. Obama was elected. U.S. employers have consistently added jobs since late 2010. For the next five years, most measures of the labor market gradually improved, before leveling off in the past six to 12 months.

Some gauges are at historically strong levels. The unemployment rate has been at or just under 5% for nearly a year. The 12-month moving average of job creation, at 204,000 a month, is above the long-run average.

But other measures have stalled out, and remain weaker than before the recession. A broader measure of unemployment that includes discouraged workers and those stuck in part-time jobs was 9.7% last month. It's been little changed for almost a year. And the share of Americans ages 25-54 with jobs, 77.8% in August, is near a postrecession high, but has changed little since January.

The data has left the Fed frozen this year. Chairwoman Janet Yellen last week pointed to modest wage improvement and workforce participation as signs the jobs market is strengthening. Yet central bankers didn't view the economy as strong enough to withstand the first increase in their benchmark interest rate since December.

The unemployment "rate and other measures of labor utilization are little changed since the beginning of the year," Ms. Yellen said. "I don't see that as bad news because it may reflect that the strong labor market is attracting people from outside the labor force back into employment."

Ms. Yellen and other Fed officials have said they expected hiring to slow and the unemployment rate to level off as slack in the labor market diminishes. But in previous expansions, long stretches of sideways movement in labor measures were followed by an economic downturn.

"I do think that it's fair to say that the pace of improvement has slowed," said Tom Porcelli, chief U.S. economist at RBC Capital Markets. "The plateau can go on for a while, or a slow easing toward a recession can go on for a while."

That can leave businesses uncertain, especially when the lackluster expansion in the U.S. is outpacing developed economies in Europe and Asia. Companies have already reacted by curtailing capital investment, creating a drag on the U.S. expansion this year, which has so far been offset by consumer spending.

"The economy has been growing very slowly for a number of years now, and we don't expect it to materially change for quite a long time," Texas Instruments Inc. Chief Financial Officer Kevin March told investors this month.

The U.S. economy has been mired in 2% annual growth for seven years, the weakest expansion since World War II. When the labor market took off in 2014 and 2015 to produce the best jobs gains since 1999, many economists predicted robust gains in gross domestic product would follow. They haven't. Growth in the first half of this year slowed to a 1% pace.

Some economists now worry that a leveling-off of the labor market might mean hiring is sinking to match weak growth.

"Gradually I think things will slow down," said Sung Won Sohn, an economist at California State University, Channel Islands. The overall economy is already weighed down by weak business spending and global headwinds. "Sooner or later that will get to employment," he said.