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U.S. JOBLESS RATE FALLS BELOW 4 PERCENT FOR FIRST TIME SINCE LATE 2000

Unemployment dips to 3.9%, but wage growth remains sluggish even as labor markets tighten

By Josh Mitchell
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WASHINGTON – Unemployment in the U.S. has fallen to one of the lowest levels of the post-World War II era, the result of a historically long jobs expansion that shows little evidence of slowing.

The jobless rate fell to 3.9 percent in April from 4.1 percent a month earlier, hitting the lowest level since December 2000, the Labor Department said Friday.

Job growth expanded in industries including manufacturing, health care, and accounting. Employers added 164,000 jobs in April and have created an average 200,000 jobs a month this year, up from last year's average gain of 182,000.

Employers have now added jobs every month since October 2010, a 91-month stretch that ranks as the longest period of job growth on record. The overall economic expansion, at 107 months in May, became the second longest on record, trailing only the expansion of the 1990s in length.

The fall in joblessness marked yet another milestone in the nation's long recovery from the 2007-2009 recession, which sent unemployment soaring to 10 percent in October 2009. Unemployment has been below 4 percent only a few times over the past 70 years – during the Korean War in the early 1950s, during the Vietnam War in the late 1960s and early 1970s, and during the tech boom of 2000.

In those instances low unemployment was associated with growing inflation or financial excesses that eventually led to recession. So far, those kinds of excesses don't show signs of stirring. Inflation in March was near the Federal Reserve's long run target of 2 percent. And stock prices, though elevated, haven't had the kind of run higher that they experienced during the late 1990s.

Economic theory suggests that when workers become this scarce, employers raise wages quickly to recruit and retain employees. But wage growth has persistently undershot economist expectations. Friday's report showed average hourly pay grew 4 cents over the past month and 2.6 percent over the past year. That is better than the 2 percent gains seen early in the recovery, though still a modest gain historically.

A separate index of wages and salaries of private-sector workers released last week by the Labor Department showed they rose 2.9 percent for the year ended in March, which was the strongest gain in nearly a decade.

Modest wage growth could be due to a number of factors, including global competition, which gives firms leeway to hold wages down because they can draw on low-wage workers from abroad.

Another factor: Americans show signs of rejoining the labor force after years spent on the economy's sideline not looking for jobs after the recession. That expands the supply of labor and restrains wages from shooting higher. The labor force contracted in April but grew by 1.3 million from a year earlier. The percentage of prime-age workers, those between 25 and 54, who are working or looking for work ticked down in April but has risen from near 80 percent in 2015 to 82 percent in April.

A separate measure of unemployment shows the labor market may not be as strong as the main jobless rate implies. This measure – which takes into account part-time workers who would prefer full-time jobs, and workers too discouraged to look for work – fell to 7.8 percent in April from 8 percent in March. In December 2000, the broader measure was 6.9 percent.

Still, economists said wage growth is bound to rise later this year.

"A sub-4.0 percent print for the unemployment rate best exemplifies how tight the demand for labor is getting in the U.S.," Fotios Raptis, economist at TD Economics, said in a note to clients. "With the economy performing better than expected in the first quarter and likely to expand at a 3 percent average pace over the next few quarters, wage pressures should gradually build."

The current situation provides a conundrum for the Federal Reserve, which raised short-term interest rates earlier this year and has penciled in at least two more increases for 2018. The Fed expects unemployment to fall to 3.8 percent by year-end, but if the rate falls further than expected, the Fed could be pressured to raise rates more aggressively to prevent the kind of economic overheating the U.S. has experienced in the past when unemployment was low.

"We believe that reduced labor slack will lead to slower employment growth in the coming months," Gregory Daco of Oxford Economics said in a note to clients. "The continued tightness in the labor market should in turn gradually lift wage growth. Overall the data continue to support our call that the Fed will raise rates three more times this year."