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Post Holidays, Labor Market Remains Buoyant

Comment on U.S. Bureau of Labor Statistics Employment Situation Report
Gad Levanon, Managing Director, Economic Outlook & Labor Markets, The Conference Board

The economy generated 257,000 new jobs in January, and gains in the previous two months were revised up significantly. With both GDP and consumption growing at 4 percent in the second half of 2014, it is no surprise that employers continue to rapidly expand their payrolls.

Given the strong employment growth, the uptick in the unemployment rate is mostly noise in the data, which will be followed by rapid declines in the months ahead. The recovery in the average hourly earnings in January aligns it better with the Employment Cost Index, released last week, which shows modest acceleration in wages. As the labor market continues to tighten, we expect to see acceleration in wage growth in 2015.

What is surprising is that other data from the Bureau of Labor Statistics suggest ongoing weakness in labor productivity, which remained flat during 2014, in the non-farm business sector, and is likely to be negative in the first quarter of 2015.

The tightening of the labor market and the weak productivity growth are likely to put downward pressure on corporate profits that are already taking a hit from the strengthening of the dollar.

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