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Falling unemployment shows that the labor market remains tight even as job growth slows

Comment on U.S. Bureau of Labor Statistics Employment Situation Report
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Employment increased by 178,000 in November after increasing by a downwardly revised 142,000 jobs in October. These figures are consistent with a general slowdown in employment growth since early 2016 relative to 2015.

Surprisingly, the unemployment rate declined from 4.9 percent to 4.6 percent. This decline may be temporary as it reflects both continued employment growth and what may be a temporary interruption in labor force participation growth. It could also reflect the difficulty many workers who lost their jobs during the Great Recession still experience in rejoining the labor force, as the demand for jobs may not match the skills outstanding potential workers have to offer.

The low unemployment rate is consistent with a tighter labor market that has continued to place upward pressure on wages. Wage growth fell back from 2.8 percent to 2.5 percent on an annual basis, but a more detailed look at recent labor market data suggests that workers continue to gain bargaining power. The share of employees voluntarily leaving their jobs is near a post-recession high.

Professional and business services continue to be the main driver of continued job growth. Manufacturing in contrast has struggled in 2016 and a stronger dollar will make this trend even more difficult to reverse.

Weaker than expected GDP growth along with global economic and geopolitical uncertainty has caused the Federal Reserve to delay planned rate increases so far in 2016. Low unemployment rates will provide the bank with room to start the rate normalization process thanks to faster wage growth, higher inflation expectations, and a rebound in oil prices.

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