Despite gradual slowing of job growth, labor market will still feel tight in 2020

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The US economy added 145,000 jobs in December, and previous months were revised down slightly. The unemployment rate remained at 3.5 percent. This month’s job growth was in line with The Conference Board’s view that the labor market appears to be in a healthy state.

Job creation was mainly concentrated in the services sector as well as in construction, while the decline of 12,000 jobs in manufacturing shows that this part of the economy is still weak. However, easing trade tensions between China and the US may help to further improve business confidence in 2020, as The Conference Board reported earlier this week.

With this month’s increase in employment, the labor market ended 2019 on solid footing. In 2019, the unemployment rate reached its lowest point since the late 1960s and job growth was strong with an average of 176,000 jobs added per month – just over 20 percent slower than the average of 223,000 in 2018. The labor market performance in 2019 should therefore be considered a significant achievement after an economic expansion of over 10 years.

While employment growth will somewhat moderate in 2020, the labor market will likely continue to further tighten as the working-age population is barely growing and labor force participation rates are only slowly increasing. Employers hiring blue-collar and manual services workers will have a harder time recruiting and retaining current employees. For these workers we also see strong wage acceleration, much faster than growth in the average hourly earnings which stagnated in 2019 at around 3.2 percent, and weakened this month to 2.9 percent. Slower wage growth for highly educated management and professional workers has held back average wage growth for all workers.

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All Employees: Manufacturing
6-month %Change-ann  SA,

All Employees: Total Nonfarm
6-month %Change-ann  SA,

Source: Bureau of Labor Statistics