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New Job Report Shows Wage Gains Are on Track

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The Bureau of Labor Statistics's November employment report makes for some Christmas cheer. The report's good news is that the unemployment rate increased only slightly, to 4.5 percent, despite that nearly 400,000 people entered the job market. The number of payroll jobs increased by 132,000, slightly below the average monthly average of 149,000 for 2006. While these preliminary numbers are certain to change, they should diminish fears of a soft economy.

Employment Report

While the unemployment rate increased a statistically insignificant 0.1 percent from the five-year low of 4.4 percent observed in October, it remains extremely low by historical standards and is well below the 5.0 percent unemployment rate of a year ago. The unemployment rate has declined even as the civilian labor force participation rate has increased over the past year. In other words, the number of new jobs is growing faster than the number of people entering the job market.

Teenagers continue to delay entering the job market despite the sharp decline in the teen unemployment rate. The overall labor force participation rate has declined since 2000, and workers aged 16 to 19 accounted for six-sevenths of the decline.[1] Many teenagers are delaying their entrance into the job market to enhance their skills through more education.[2] This will lead to greater future productivity for both these teenagers and the economy.

The job picture remains bright even as the construction industry softens along with the housing market. For the third month in a row, construction has shed jobs. But overall, employment in construction fell by just 2,000 jobs over the course of the year, alleviating concerns of a hard landing due to the housing market slump.

Rising Wages

The employment report also challenges another myth about the economy. Liberal commentators complain that despite signs of outward strength, the economy is shortchanging workers. Specifically, they argue that workers' pay has not kept pace with increases in workers' productivity, as it has historically.[3] The economy is growing and businesses' profits are rising, liberals argue, but only the wealthiest Americans are seeing their incomes grow.

But recent differences between earnings and productivity are not unusual, and they are not evidence that workers were getting shortchanged. Wages and productivity move together over the long term but often do not move together at every point of the business cycle. For example, produc-

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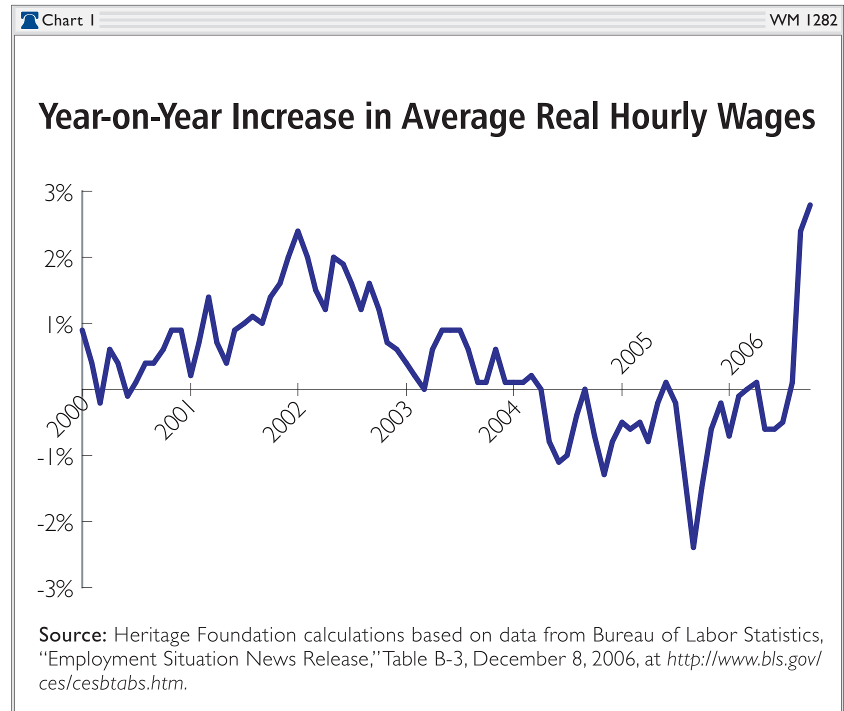
tivity grew faster than compensation for several years following the 1991 recession. At one point in that recovery, productivity had risen 9.7 percent while compensation had only risen 6.1 percent.[4]

By the end of the 1990s, however, low unemployment meant that nearly all workers were seeing fatter paychecks, as labor-starved companies competed for workers. In addition, workers' earnings shot up rapidly during the late 1990s, catching up to the earlier productivity gains.[5] In the end, gains in wages matched gains in productivity, but with a lag of several years.



Source: Heritage Foundation calculations based on data from Bureau of Labor Statistics, "Employment Situation News Release," Table B-3, December 8, 2006, at *http://www.bls.gov/ces/cesbtabs.htm.*

The U.S. economy may be at that point now. Employees are enjoying substantial raises. Even as productivity growth has slowed, workers' wages have risen rapidly. Over the past 12 months, average hourly wages have increased by 4.1 percent. Earnings have not risen this quickly since February 2001, right before the collapse of the tech bubble.[6] The same also holds true after taking account of inflation. Inflation-adjusted wages have risen 2.8 percent over the past year, the fastest rate since August 1998.[7]

Companies are giving their employees the raises that their increased productivity has earned them, and in response, incomes are rising. Arguments that companies are not passing on productivity gains to their workers appear set to join the complaints of two years ago—about the "jobless recovery"—in the trash bin.

Conclusion

The current economic expansion sparked by President Bush's reduction in the tax rates on labor and capital continues to support a solid labor mar-

1. James Sherk, "Hard at Work: Why the Unemployment Rate Accurately Reflects the Strength of the Labor Market," Heritage Foundation *Backgrounder* No. 1942, June 15, 2006, at *www.heritage.org/Research/Labor/bg1942.cfm*.
2. *Ibid.*
3. See Jonathan Chait, "Freakoutonomics," The New Republic Online, Oct. 26, 2006, at *http://www.tnr.com/doc.mhtml?i=20061106&s=chait110606*.
4. Heritage Foundation calculations based on Bureau of Labor Statistics, "Productivity and Costs: Nonfarm business sector." Compensation deflated using the implicit price deflator. These figures are measured 20 quarters out from the end of the 1991 recession, from Q1 1991 to Q1 1996.
5. James Sherk, "Shared Prosperity: Debunking Pessimistic Claims about Wages, Profits, and Wealth," Heritage Foundation *Backgrounder* No. 1978, October 15, 2006, at *www.heritage.org/Research/Economy/bg1978.cfm*.
6. Heritage Foundation calculations based on Bureau of Labor Statistics, "Employment Situation News Release," Table B-3, December 8, 2006, at *http://www.bls.gov/ces/cesbtabs.htm.*
7. *Ibid.* Note that the past 12 months encompasses October 2005 to October 2006, as inflation data is not yet available for November 2006.

ket. Even with a slight economic slowdown in the third quarter of this year, the economy boasts a very low unemployment rate.

The new Congress should not interfere with this economic expansion. Tax increases, new government regulations, and labor market interference will hurt the economy in the long run and cost jobs. If Congress does anything at all, it should make President Bush's tax cuts permanent and thereby continue to support an economy that remains the envy of the world.

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