

Issue: Breaking Down the Jobs Report

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It's not just about the topline numbers

Executive Summary

The U.S. Labor Department's monthly jobs report is closely monitored by investors, business executives and policymakers for signals about the direction of the world's largest economy. While the headline numbers for job creation and unemployment draw the most attention, the report contains a raft of other data that provide important insights into the U.S. labor market.

Full Report

The U.S. government's monthly jobs report is one of the most closely watched economic data events in the world.¹ It can move markets, influence policymakers and shape public perceptions of the economy.

The information is guarded so closely before its release at 8:30 a.m. on the first Friday of every month that journalists covering it are literally locked in a room and cut off from the outside world until the official unveiling.² A handful of top government officials, including the president, gain access ahead of time; President Trump sent shock waves through the economic world in June when he broadly referenced the results of a jobs report in a tweet more than an hour before its release, raising a host of political and legal questions.³

"Jobs are the holy grail of economic activity, because when more people are employed, consumer spending is going to be higher," says David Brown, deputy director of the economics program at Third Way, a center-left think tank in Washington. Consumer spending on goods and services accounts for more than two-thirds of GDP, according to government data.⁴

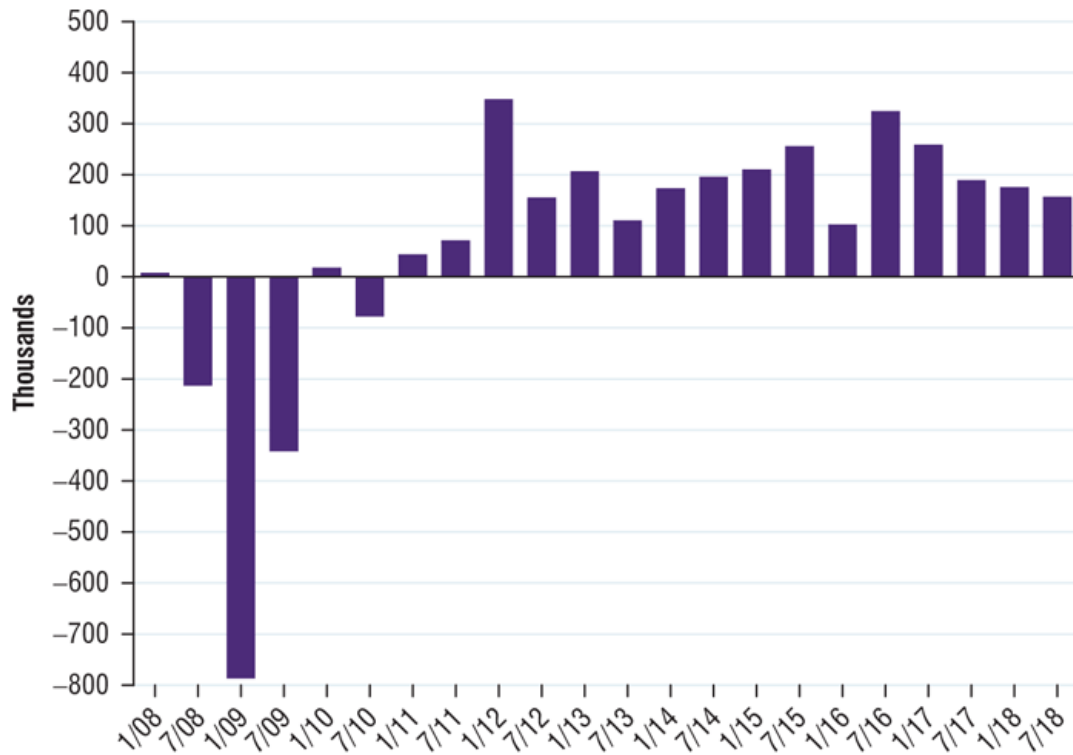
The roughly 40-page report, compiled by the Labor Department's Bureau of Labor Statistics (BLS), contains a host of figures regarding the health of the economy. The report is derived from two surveys: Current Employment Statistics (CES), also known as the establishment survey, which questions approximately 147,000 businesses and government agencies at all levels about hiring trends; and the Current Population Survey (CPS), also called the household survey, which samples 60,000 households about their employment status and job-search activities.⁵

The establishment survey measures every economic sector except agriculture, which is why it is sometimes called the nonfarm payroll report. The household survey does include farm work.⁶ The establishment survey is considered somewhat more reliable, given its larger sample size. The figures are preliminary and are updated several times as the BLS collects more data.⁷

Two headline figures capture the most attention: the number of jobs gained or lost and the unemployment rate. In July, for example, the surveys found that the economy added 157,000 jobs and the unemployment rate fell to 3.9 percent.⁸

U.S. Has Gained Jobs Since Recession

Monthly nonfarm jobs gained/lost, 2008–18



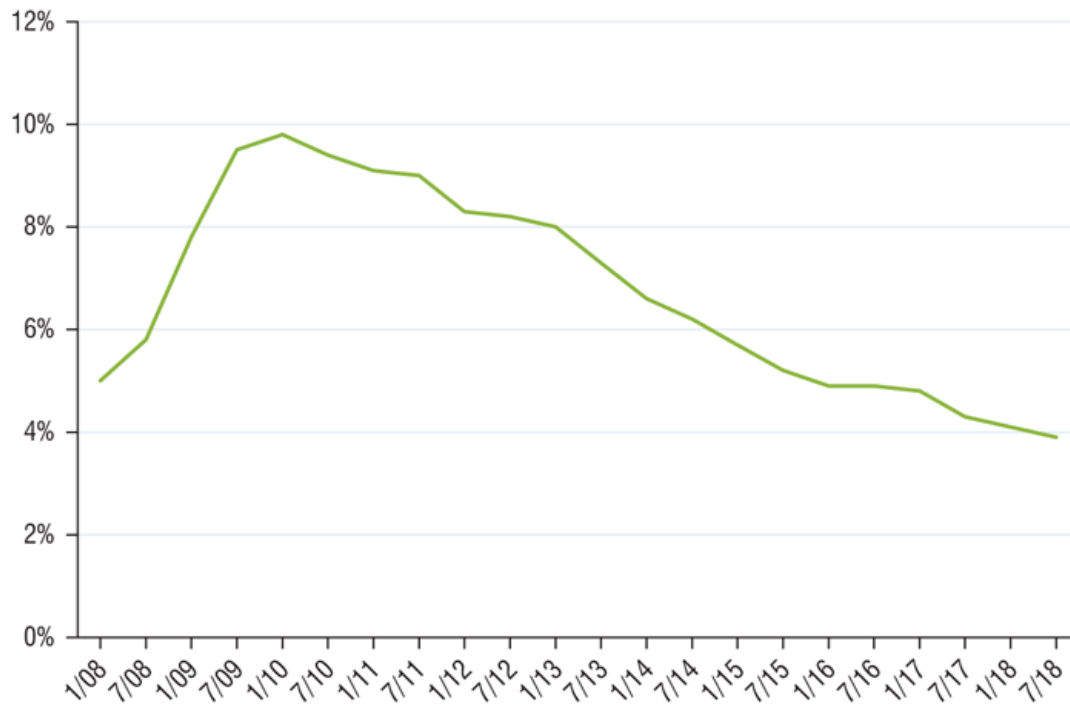
Note: Number for July 2018 is preliminary.

Source: "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)," Bureau of Labor Statistics, May 2018, <https://tinyurl.com/mme6d99>

The number of nonfarm jobs in the United States has grown since 2010 after falling during the 2007–09 recession.

Jobless Rate Has Fallen Steadily Since 2010

U.S. unemployment, 16 years and over, 2008–18



Source: "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics, July 2018, <https://tinyurl.com/zyq5xlx>

The U.S. unemployment rate has fallen to just below 4 percent after spiking in the aftermath of the 2007–09 recession.

The July figures suggested a fairly healthy economy, one with enough jobs available for those seeking work – although observers question whether those topline numbers obscure ongoing problems elsewhere in the labor market.

The information is used instantly to inform trades on stocks and bonds, and later to assist businesses, government officials and economists in tracking longer-term trends. It helps the Federal Reserve make decisions about monetary policy, which in turn aids corporations in strategic planning as they make decisions about future investments and borrowing. Those moves help portfolio managers and longer-term investors decide where to allocate their money based on the health of corporate bonds, Treasury securities and other markets, which are all influenced by signals about the economy's direction.⁹

"What's codified into a couple of small numbers is a lot of knowledge about where the economy is and where the economy is going," says Michael Farren, a research fellow at George Mason University's Mercatus Center, a conservative think tank in Arlington, Va.

Take, for example, the figure for jobs gained. That number reflects on-the-ground information from establishments across the country about their hiring, which in turn shapes their business planning based on the economic conditions they are experiencing.

This figure also is significant because it provides a glimpse into whether the rate of jobs added is sufficient to offset population growth among working-age people. There is debate about the level of this minimum number of jobs: A 2016 survey of economists put it at 145,000 a month, while the Federal Reserve Bank of San Francisco pegged it at between 50,000 and 110,000, a lower figure that reflects an aging population and declines in the level of participation in the labor force.¹⁰

Some experts look beyond the headline number, which includes both private and government employment, to focus on jobs gained or lost just in the private sector. They say this number better reflects real economic activity.

"The government will hire or lay off workers irrespective of what's going on in the economy," says Bernard Baumohl, chief global economist at The Economic Outlook Group, a forecasting and economic intelligence firm in Princeton, N.J. "Companies, however, will hire workers if they believe the economy is growing and that they'll get a return on that investment."

The second most important figure in the jobs report is the unemployment rate, which is the number of people who are jobless, actively seeking work and available to take a job divided by the entire labor force. The rate peaked at 10 percent shortly after the end of the 2007–09 recession and has since fallen significantly.¹¹

The unemployment rate is central to both parts of the Fed's congressionally established mandate for managing the economy. The Fed pursues a so-called dual mandate: to wield monetary policy – principally the manipulation of interest rates – to maximize employment and

also to keep prices stable.¹² That means Fed officials watch the unemployment rate closely. Low unemployment can put pressure on employers to increase wages in order to attract workers, which can then spur inflation. When inflation begins to exceed the Fed's target rate of 2 percent, the central bank might raise interest rates, which slows economic growth and cools inflation.

Federal Reserve Chairman Jerome Powell said in late August that the Fed was trying to steer a course between the perils of killing economic growth by raising rates too quickly and allowing the economy to overheat by lifting rates too slowly. "I see the current path of gradually raising interest rates as ... taking seriously both of these risks," he said at the Fed's annual policy forum in Jackson Hole, Wyo.¹³

The Fed's principal lever to control interest rates is the so-called federal funds rate, the rate at which private banks borrow from each other overnight. When the central bank's Federal Open Market Committee raises or lowers the federal funds rate, the effect ripples through the economy, influencing the interest rates that financial institutions offer to consumers and businesses.¹⁴ That is partly why many observers, including investors, banks and economists, watch the jobs report: to get an indication for how the Fed might change monetary policy.

Fed policymakers historically have divided into two camps, known as hawks and doves. "Hawks care more about a stable and predictable rate of inflation, although most admit that the dual mandate means they must also focus on employment data," says Brandon Barford, a partner at Beacon Policy Advisors, a consulting firm in Washington. "Doves would care more about employment and may have a greater comfort with higher inflation levels in order to get a better employment result."

The unemployment rate has been hovering near what economists consider "full employment" – the lowest level of joblessness the economy can sustain without triggering inflation. The Fed currently estimates this level, also called the natural rate of unemployment, to be 4.1 percent to 4.7 percent.¹⁵

Some observers had hoped that low unemployment would put upward pressure on wages, but so far workers' earnings have been slow to rise, even though there are more job openings across the country than people looking for work.¹⁶ In July, average weekly earnings grew 2.99 percent from a year earlier, while inflation rose 2.9 percent over the same period. This means workers' purchasing power, the amount they can buy with each dollar, has barely budged after accounting for inflation.¹⁷

Wage Gains Remain Modest

Average weekly earnings percentage change, 2008–18



Note: Number for July 2018 is preliminary.

Source: "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)," Bureau of Labor Statistics, May 2018, <https://tinyurl.com/yd55pd73>; "Nonfarm jobs gained or lost," Bureau of Labor Statistics, accessed Sept. 4, 2018 (Chart 3), <http://tinyurl.com/y7upor4m>

The average weekly wage of U.S. employees has grown only modestly despite a strengthening labor market.

Liberal and conservative experts debate whether the Fed should be holding interest rates steady to help spur wage growth or whether other factors, including low productivity, might be depressing earnings regardless of monetary policy.¹⁸ Even Fed Chairman Powell has

called sluggish wage growth a “puzzle.”¹⁹

The tepid wage growth suggests to many experts that, despite strong jobs gains and low unemployment, the economy still has some “slack” – essentially, it is not generating goods and services as productively as it could if it better utilized its available workers and resources.²⁰

“If you start to see that wage number move up, it would indicate that we are getting closer to the full employment number and that you are going to see inflationary pressure start to rise,” says Doug Clark, senior vice president and chief portfolio strategist at Prime Advisors, an investment management firm.

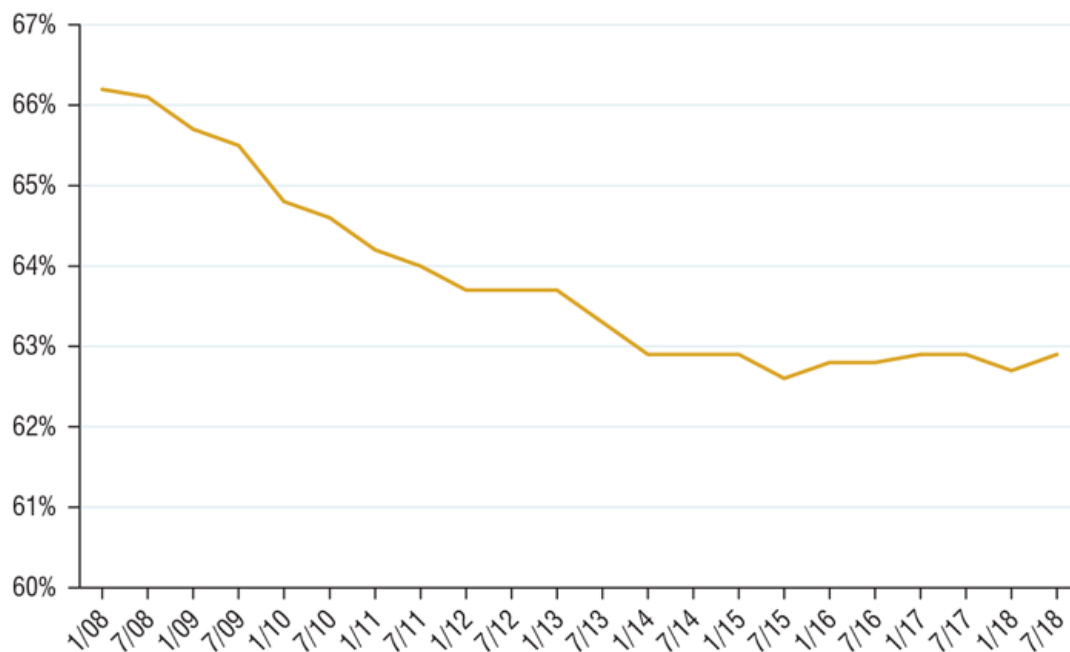
Economists and policymakers watch several other indices in the jobs report that provide a sense for how demand for workers is changing. One is average weekly hours worked. Even small variations in this metric can hint at changes in consumer demand – when businesses are busy, employees are more likely to work longer hours. Private-sector employees worked an average of 34.5 hours per week in July, edging down slightly, by 0.1 hours, from a month earlier.²¹

Baumohl says he also follows trends in overtime hours in the manufacturing sector, which is more sensitive to changes in economic activity than services. “If companies are getting fewer orders, they’re going to slow down their assembly lines, and if they’re slowing down the assembly line, there’s going to be less overtime,” he says.

Economy-watchers have been following another longer-term trend that the jobs report tracks: the decline in the labor force participation rate. Currently, 62.9 percent of the population is in the workforce, down from just over 66 percent a decade ago.²²

Labor Force Participation Drops

Labor force participation rate, 2008–18



Source: “Labor Force Statistics from the Current Population Survey,” Bureau of Labor Statistics, July 2018, <https://tinyurl.com/jd6tndw>

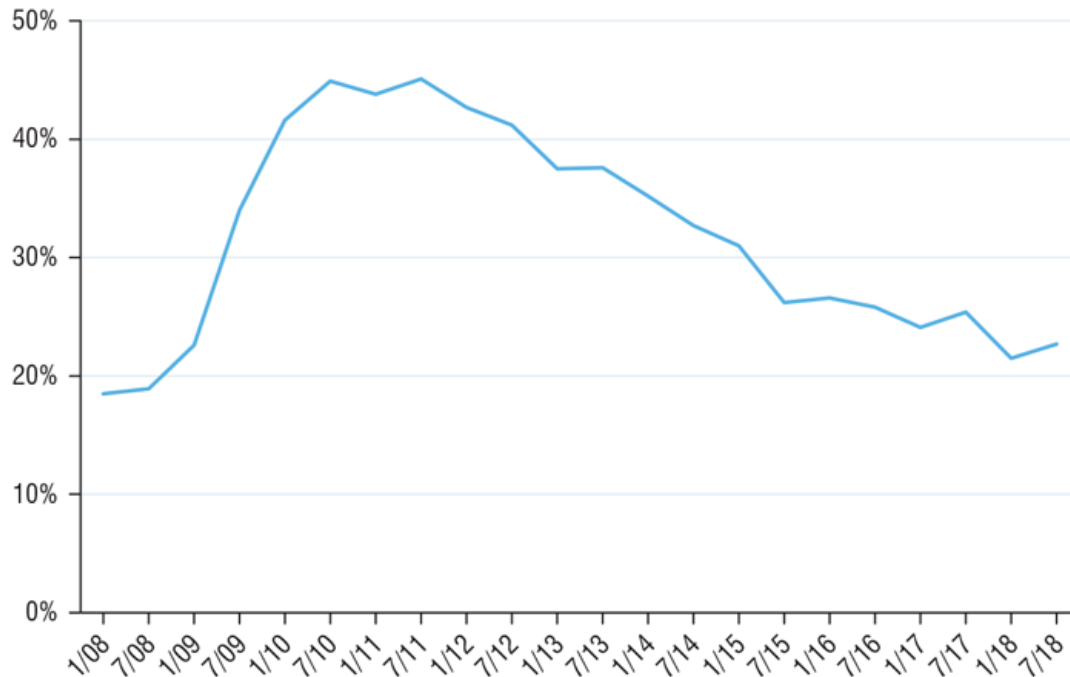
The U.S. labor force participation rate has fallen from more than 66 percent to less than 63 percent in the past decade.

Experts point to a number of factors that could be reducing the proportion of the population that is either employed or looking for work, including an aging workforce, the opioid crisis, a skills mismatch between available workers and available jobs and an increased incarceration rate, which leaves many potential workers with a criminal record.²³

A closer look at the unemployed population provides further clues about the labor market’s health. The jobs report gives information on the length of time that a worker remains unemployed, which is important because the longer people remain out of work, the harder it will probably be for them to find a job. This is especially true for the so-called long-term jobless, those unemployed for 27 weeks or more.²⁴

Long-Term Joblessness Peaked Post-Recession

Percent unemployed 27 weeks or more, 2008–18



Source: "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics, July 2018, <https://tinyurl.com/y9mtovdb>

Long-term unemployment, defined as being jobless for 27 weeks or more, peaked during the years immediately following the 2007–09 recession.

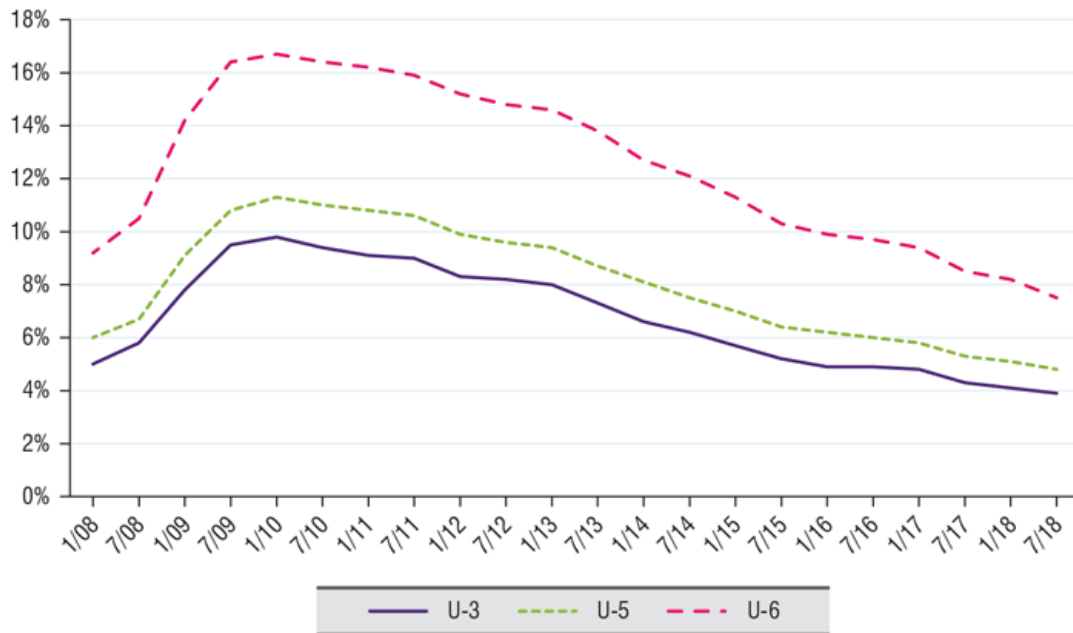
The BLS also collects information about people who are out of the labor force but say they would like a job. This category, known as marginally attached workers, is defined as those who say they want a job and have searched in the past 12 months, but not in the past four weeks. A subcategory of marginally attached workers is discouraged workers: those who say they want a job but are not actively seeking work because they believe no job is available.²⁵

Treasury Secretary Steven Mnuchin has argued that more attention should be paid to an unemployment rate that includes both discouraged and other marginalized workers, known as the U-5 rate based on BLS coding. "Currently, excessive influence appears to be placed by U.S. policymakers on one metric," he said last year, referring to the headline unemployment rate.²⁶

Another common measure for broader unemployment includes marginally attached and discouraged workers plus those who work part time but want to be full time. The figure is often referred to as the U-6 measure. It was 7.5 percent in July, nearly twice the headline U-3 unemployment number.²⁷

Broader Measures of Unemployment

U-6, U-5 and U-3 unemployment rates, 2008–18



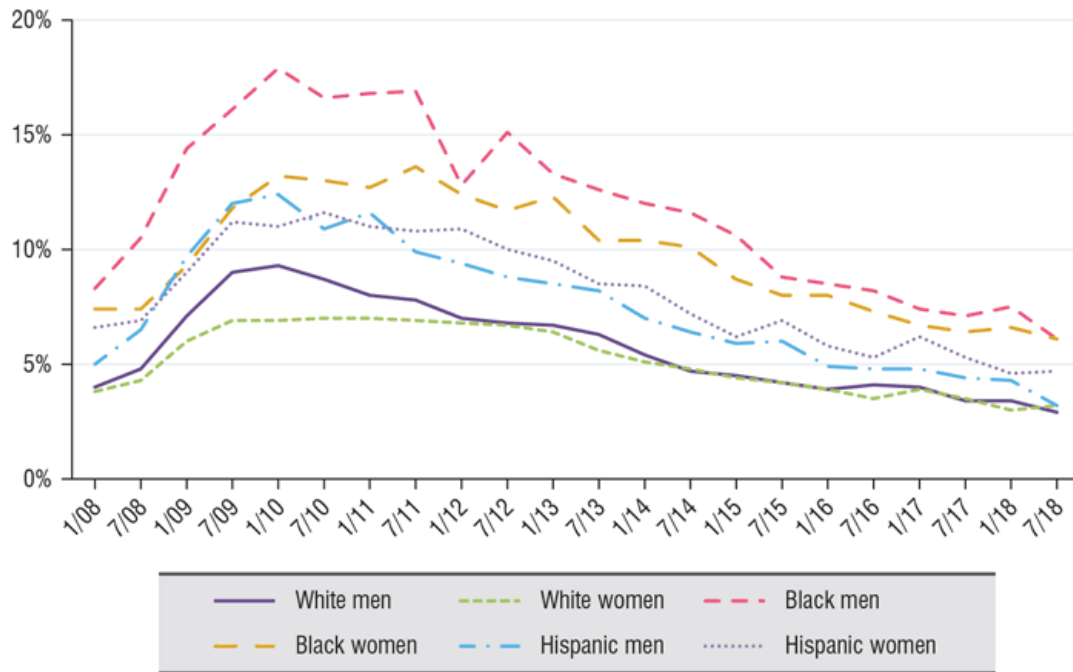
Sources: "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics, July 2018, <https://tinyurl.com/y75cd2fl>, <https://tinyurl.com/jp6c37v>, <https://tinyurl.com/zyq5xlx>

U-3 is the headline unemployment rate; U-5 is total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force; U-6 is total unemployed, plus all persons marginally attached to the labor force, plus total employed part-time for economic reasons.

Yet even the more inclusive U-6 measure tends to disguise variations among different groups, including women and minorities. In July, both white men and women were unemployed at rates lower than the national average: 2.9 percent and 3.2 percent, respectively. During the same period, 6.1 percent of both black men and women were unemployed, as were 3.2 percent of Hispanic men and 4.7 percent of Hispanic women.²⁸

Unemployment Highest Among Blacks

Jobless rate by race/ethnicity and gender, 2008–18



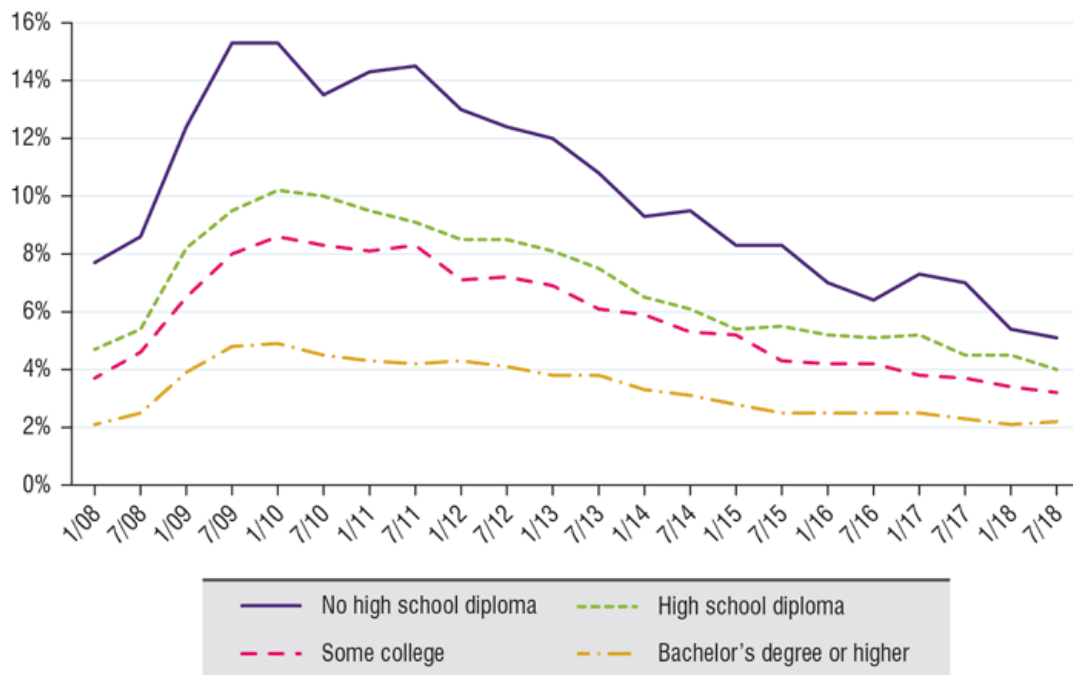
Sources: "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics, July 2018, <https://tinyurl.com/y9o629fa>, <https://tinyurl.com/y7ohc5oz>, <https://tinyurl.com/yd6hb4k4>, <https://tinyurl.com/yowph7ug>, <https://tinyurl.com/yovblq9t>, <https://tinyurl.com/ybbo3szc>

Black men have experienced the highest unemployment rates over the past decade, followed by black women.

Similar breakdowns are revealed when unemployment figures are examined across levels of educational attainment.

Less Educated More Likely to Be Jobless

Unemployment rate by level of educational attainment, 2008–18



Sources: "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics, July 2018, <https://tinyurl.com/y74vgt8c>, <https://tinyurl.com/ydd8oqwn>, <https://tinyurl.com/y9bqkb5p>, <https://tinyurl.com/yblj36wf>

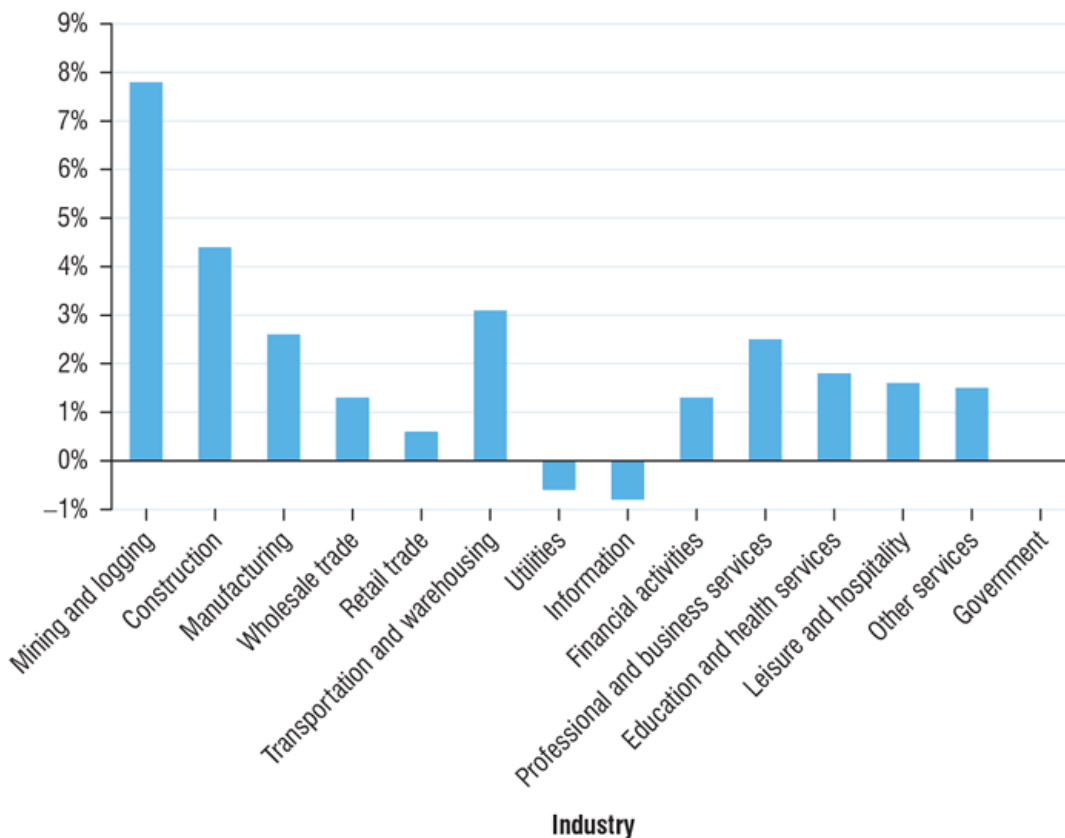
Workers with lower levels of education consistently have greater unemployment rates than those who have achieved a bachelor's degree or higher.

Those with a bachelor's degree or higher report much lower rates of unemployment than those with a high school diploma or who did not graduate from high school. In fact, while the unemployment rate for those without a diploma has fallen considerably over the past decade – to 5.1 percent in July – that rate is still higher than the one for those with a college degree at the height of the financial crisis.²⁹

Finally, a breakdown of jobs by sector provides another economic snapshot.

Rapid Employment Growth in Mining and Logging

Employment percentage change by industry, 2017–18



Source: "Employment by industry, monthly changes," Graphics for Economic News Releases, Bureau of Labor Statistics, July 2018 (click on 12-month tab), <http://tinyurl.com/yon7mpyh>

The greatest employment growth in the past 12 months was in the mining and logging sector, while the largest decline was in the information industry.

Jobs in the mining and logging sector and in construction grew the fastest from July 2017 to July 2018.³⁰ The transportation and warehousing sector also registered strong gains as the economy has expanded, with more consumer goods and manufacturing companies looking to ship or store their products.³¹

Each measure contained within the jobs report offers one piece of a complex puzzle that economists, money managers and other decision-makers can use to better understand where the economy is headed.

"If you see that employment grows by 200,000 or wages are growing by 2.5 percent year-over-year, what does that mean?" the Mercatus Center's Farren says. "When you aggregate [survey data] across all businesses, that's telling you something about the state of the economy in general. There's a lot that's influenced downstream by these relatively limited numbers."

About the Author

Victoria Finkle is a journalist based in Washington who focuses on business, banking and public policy. She has written for The New York Times, Inc. magazine, Bloomberg BNA, Washington Monthly and American Banker. Her previous reports for SAGE Business Researcher were on [behavioral economics](#), [financial technology](#), [shadow banking](#), the [Federal Reserve](#), [Glass-Steagall](#), [productivity](#) and [low inflation](#).

Chronology

1884–1966	Early era of job data collection.
1884	The Bureau of Labor Statistics (BLS) is founded within the Department of the Interior; it remains an independent bureau before moving to the Department of Commerce in 1903.
1913	The BLS is transferred to the newly created Department of Labor, where it remains today.
1915	The BLS launches the Current Employment Statistics (CES) program to publish data on employment, hours worked and earnings.
1933	The U.S. unemployment rate during the Great Depression peaks at 25 percent.
1940	The federal government's Work Projects Administration begins a survey, the Monthly Report of Unemployment, to assess national levels of joblessness. It becomes known as the Current Population Survey (CPS) eight years later.
1943	The number of U.S. jobs grows by 12.9 million between January 1939 and November 1943, most of the growth fueled by World War II.
1944	Amid all-out production for the war, unemployment falls to an estimated annual historic low of 1.2 percent.
1945	The number of jobs falls drastically from the gains recorded during the war, dropping by 3.7 million through December.
1953	Unemployment hits a post-World War II low of 2.5 percent.
1966	CES and CPS data are combined for the first time in a single report, called The Employment Situation.
1969–present	Monthly reports track volatile job market.
1969	Unemployment falls to 3.5 percent in December.
1982	Unemployment spikes to 10.8 percent during the 1981-82 recession.
1994	The CPS undergoes a major redesign to improve data collection methods and data quality.
2000	Unemployment in April falls to 3.8 percent during the peak of the dot-com bubble.
2008	Because of the financial crisis and the recession, the United States loses an estimated 1 million jobs, the biggest annual decline since 1945.
2009	The unemployment rate tops out at 10 percent just after the end of the recession.
2018	The jobless rate drops to 3.8 percent in May.

Resources for Further Study

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The Next Step

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Organizations

Aspen Institute

1 Dupont Circle, N.W., Suite 700, Washington, DC 20036
1-202-736-5800

www.aspeninstitute.org

A global think tank that studies the gig economy, among a host of other economic and policy issues.

Georgetown University Center on Education and the Workforce

3300 Whitehaven St., N.W., Suite 3200, Washington, DC 20007
1-202-287-7766

<https://cew.georgetown.edu/>

An independent policy institute that researches the labor market and the workforce.

Mercatus Center

George Mason University, 3434 Washington Blvd., 4th Floor, Arlington, VA 22201
1-800-815-5711

www.mercatus.org/

A conservative, market-oriented think tank that studies regulation, financial policy and monetary policy.

Third Way

1025 Connecticut Ave., N.W., Suite 400, Washington, DC 20036
1-202-384-1700

www.thirdway.org/

A center-left think tank that examines the economy, the labor market and trade.

U.S. Bureau of Labor Statistics

Postal Square Building, 2 Massachusetts Ave., N.E., Washington, DC 20212-0001
1-202-691-5200

www.bls.gov

A Labor Department agency that conducts employment surveys and produces the monthly jobs report.

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