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JOBS REPORT

2015 Was a Great Year for Jobs. 2016 Will Have a Hard Time Matching It.

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By Neil Irwin

The newest numbers on the state of the American job market are good news on almost every front and show that 2015 was a blockbuster year for jobs. That raises some important questions — and doubts — about what will happen in 2016.

The 292,000 jobs the Labor Department estimates the nation added in December, combined with upward revisions to past months, affirm that 2014 and 2015 had the strongest job gains since the boom of the late 1990s — 5.8 million positions added to the nation's payrolls in a mere 24 months. It was enough to drive the jobless rate to 5 percent in December 2015 from 6.7 percent at the end of 2013.

Given the scars left by the 2008 recession and slow recovery, this is all unabashed cause for celebration. There are opportunities for workers now that just weren't there in the years immediately after the recession.

The bad news in the report, if you can call it that, was that average hourly earnings were unchanged. But given the very low inflation, American workers have still seen meaningful improvement in earnings power over the last year — a 2.5 percent rise in hourly earnings against a backdrop of barely visible inflation.

Which brings us to the questions that remain.

A big question for the year ahead is whether the breakneck pace of job growth of the last two years can continue now that the jobless rate is close to what economists consider full employment. And this boils down to how many Americans who currently aren't working can be coaxed back to work.

In the latest numbers, the ratio of the population that was working ticked up to 59.5 percent in December, the highest since May 2009. That's the good news. The bad news is that number was 63 percent on the eve of the recession that began at the end of 2007.

Here's some quick math. The lowest the unemployment rate has been in modern times was 3.8 percent in the spring of 2000. For the economy to get to that low level (which coincided with the peak of the dot-com boom, but that's a different story) with only the current labor force — people who are either working or actively looking for a job — 1.9 million more Americans would need to find work.

But if the United States keeps adding jobs in 2016 at the rate it did in 2015, we'll hit that number in no time: in September, to be precise.

The sharp improvements of the last couple of years could imply "modest slowing in jobs growth going forward, as the available supply of qualified workers has been thinned out," said Rick Rieder, a chief investment officer at BlackRock, in a note. "Paradoxically, if our thesis is correct, this forthcoming slowing in jobs growth would be a sign of labor market tightness, not weakness."

In other words, something has to give. Either some of those millions of Americans who dropped out of the work force will return, allowing continued rapid job growth, or the rate of job growth will have to slow down to something closer to the rate at which the working-age population is growing (below 100,000 jobs a month, versus the 221,000 jobs a month added in 2015).

"With such strong employment gains, you might have expected December's unemployment rate to dip below 5 percent," **Bernard Baumohl, chief global economist of the Economic Outlook Group,** said in a research note. "But it didn't happen and for good reason," namely that 466,000 more people counted themselves as being in the labor force.

Whether the "missing" workers will return as the labor force keeps improving is a question with short-term implications for the Federal Reserve and for the state of the economy when the 2016 election takes place. But even more important, it has long-lasting implications for America's productive capacity.

If the growth in labor force participation that was evident in December goes away in future months and labor force participation stagnates, it will imply that the United States is actually quite close to full employment. That suggests that inflation is imminent, that the Fed will need to raise interest rates relatively quickly and that job growth will be slowing by the time voters go to the polls to pick the next president. In the longer run, it implies that growth will slow down from its already sluggish levels in the next couple of years.

On the other hand, if a combination of improving job opportunities and higher wages pulls some of those people who are neither working nor looking for a job into the work force, it will imply that the Fed can take its time with rate increases, and job growth could remain robust for some time to come.

The most likely result is some mix of both: The rate of job creation will slow, but the labor force will also grow as people return to the work force.

But how the balance tilts is one of the important questions for American workers and the role of the United States in the global economy in the years to come.

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