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Wages Rise as U.S. Unemployment Rate Falls Below 5%

By **NELSON D. SCHWARTZ** FEB. 5, 2016

Is the American worker finally getting a raise?

After years of scant real gains despite steadily falling unemployment and healthy hiring, wages picked up significantly last month, a sign the job market could be tightening enough to force companies to pay more to attract and retain employees.

The half a percentage point increase in average hourly earnings in January was the brightest spot in a generally positive Labor Department report on Friday, which showed job creation slowing from the white-hot pace of late 2015 even as the unemployment rate fell to an eight-year low of 4.9 percent.

The last six months were the best extended period for employee paychecks since the recovery began six-and-a-half years ago.

“That gain in average hourly earnings is significant,” said Diane Swonk, an independent economist in Chicago. Sustained increases are still needed to make up for years of stagnation, she added, “but it’s a move in the right direction, and that’s reassuring.”

Economists also said that the new figures suggested that the American economy is holding up well despite a slowdown in China, growing risks in emerging markets and turmoil in the stock market.

“The financial markets are leery,” said Michael Hanson, a senior economist at Bank of America Merrill Lynch, “but the labor market still looks like it’s continuing to grow.”
President Obama, who expressed frustration that he has not received the credit he feels he deserves for the country’s improving economy, said the jobs numbers were further signs of progress.

“After reaching 10 percent in 2009, the unemployment rate has now fallen to 4.9 percent even as more American joined the job market last month,” he told reporters at a White House briefing in Washington. “Americans are working.”

Over all, employers added 151,000 jobs last month, a pace that is strong enough to keep soaking up people looking for work if it continues in the months ahead, but a big step down from December’s revised increase of 262,000.

The combination of rising pay with a slower pace of hiring and downward pressure on prices from a stronger dollar complicates the picture for the Federal Reserve as it contemplates the timing of its next interest rate increase.

Wages have shown month-to-month strength during the recovery, only to lapse back into a funk. But a slight increase in the length of the typical workweek in January also bodes well for future salary increases, as do private reports showing the same pattern.

A December survey by PwC, the accounting and consulting firm, showed companies budgeting for salary raises of nearly 3 percent in 2016, the biggest annual increase since the recovery began. More than a third of executives said they were worried that labor costs could eat into corporate profit margins, nearly twice the number who cited that fear a year ago.

“No doubt about it, I’m hearing that executives are seeing wage pressures and not just in a few pockets of the country,” said Ken Esch, a partner at PwC. “It’s pretty broad-based.”

Managers like Dave Rozenboom, president of First Premier Bank in Sioux Falls, S.D., have had to hand out raises for both existing employees and new hires.

Starting salaries for workers who handle credit card customer service and collections recently rose to $13 an hour from $11.75, Mr. Rozenboom said. Hospitals and construction firms in Sioux Falls, where the local unemployment rate stands at 2.6 percent, are also hiring.

“The economy is as strong as it has ever been here,” Mr. Rozenboom said “It’s a very tight labor market, and we continue to hire.”

Sioux Falls’s situation may be unusually robust, but the upward trajectory in employment across the country suggests to some analysts that Main Street business leaders like Mr. Rozenboom know something that the Wall Street pessimists don’t.

“The January employment report provides yet one more piece of evidence that the chance of recession this year is truly remote,” said **Bernard Baumohl, chief global economist for the Economic Outlook Group** in Princeton, N.J. “Economic activity should accelerate this year as rising employment, income, home values and confidence drive more spending.”

Of course, markets are mercurial, foreseeing some recessions that never come to pass, while economists often fail to see that the good times are coming to an end right up until the music stops.

There certainly have been reasons for investors to feel edgy lately, including weakness in China, plunging oil prices and disappointing retail sales figures.

Indeed, those industries closely tied to commodity markets where prices are dropping showed real weakness last month. Stripping out seasonal adjustments, oil and gas drillers laid off more than 2,000 workers in January, wiping out four years of employment gains. The overall mining industry, which includes the oil sector, has shed 146,000 jobs since Sept. 2014.

But jobs in manufacturing, in a reversal from its weakness in the second half of 2015, surged last month, rising by 29,000. The strong dollar and weak export markets in Asia and Europe have hurt factory employment, but some experts suggested that the worst may now be over.

"It's a sign the manufacturing sector may be stabilizing," said Scott Anderson, chief economist at Bank of the West in San Francisco. While the factory sector in the United States is not nearly the size it once was, it plays an important role in the ups and downs of the business cycle and is a source of better-paying jobs for blue-collar workers who have fared poorly in recent decades.

The construction industry, another source of higher-paying working class jobs, also held up well, adding 18,000 jobs despite the colder weather in the eastern half of the country.

The overall figures for job creation, as well as the sector-by-sector data, are likely to be revised in future months as more data comes in. The proportion of Americans who are in the labor force, which has been stuck at lows not seen since the late 1970s, ticked up slightly in January.

As has been the case since the current recovery began in mid-2009, the most educated workers are doing the best in today's job market: The unemployment rate for college graduates was unchanged in January at 2.5 percent, while joblessness rose to 7.4 percent for people without a high school diploma.

"We do think the unemployment rate will continue to drift lower and that will support wage growth," said Michael Gapen, chief United States economist at Barclays. "We don't think the economy is sliding into a recession."

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