Robust Jobs Report Erases Concerns About a Slowdown

Any concerns about a nascent slowdown in the American economy were firmly erased by [Friday's report from the Bureau of Labor Statistics](#). Beating forecasters' predictions of 200,000 new jobs being added to the booming economy in May, the real number according to the BLS was a heartening 223,000. The agency also reported that the unemployment rate, as a result, dropped further, to 3.8 percent — a level not seen in decades.

Commentators were ebullient. Nelson Schwartz, writing in the *New York Times*, said, "The American economy roared into overdrive last month … underscor[ing] other recent signs of strength, like robust personal income and spending data reported earlier this week."

Thomas Simons, senior money market economist at investment firm Jeffries LLC, said there were "no holes to poke here [in the report]…. These numbers are phenomenal." Paul Ashworth, chief U.S. economist for Capital Economics, echoed the sentiments [expressed by this writer on Thursday](#): "The economy and labor market appear to be firing on all cylinders, with all sectors showing strength…. Gains in manufacturing and mining are complementing the steady growth in service sector employment."

From the report itself can be gleaned the breadth and depth of the new jobs across the economy: retail trade has added 125,000 new jobs over the last 12 months, while construction employment has risen by 286,000 since last May. Professional and technical services has added 206,000 new jobs in the last year while transportation and warehousing employment is up 156,000 over the same time period. Most impressive perhaps is manufacturing which has added 259,000 new jobs in the last 12 months.

Even better, the BLS revised upwards its previous reports of new jobs created in March and April by 15,000. Wages are also improving, rising 2.7 percent year over year, well ahead of inflation.

So strong is the economy in parts of the country that employers are offering signing bonuses to lure workers. In Council Bluffs, Iowa, for example, where unemployment is under three percent, Union Pacific has started offering $20,000 bonuses to new hires for their train crews — a job, according to the *New York Times*, requiring no experience or education beyond a high-school diploma. In some cases, said the *Times*, "the company isn't even waiting for students to graduate to start the recruiting process."

The only bone to pick isn't with the good news from the BLS but with the warnings about inflation due to those wage increases. The canard is that increases in wages, although welcome to each worker, are somehow a warning sign that inflation — price increases all across the economy — is heating up, with the Federal Reserve standing ready to increase interest rates to tame the incipient beast. Joseph Song, a senior U.S. economist at Bank of America Merrill Lynch, fell into the trap: "When Wall Street sees higher wages, that signals that the Fed is starting to see inflationary pressures build in the economy. That makes equity markets nervous that the Fed will raise interest rates faster than they signaled they would."

Also falling into the trap of equating wage increases with incipient price increases all across the economy was Asjylyn Loder, writing for the *Wall Street Journal:*

> Workers might welcome fatter paychecks, but rising wages translate into higher costs for goods and services, fueling inflation. Because the Fed seeks to foster maximum employment while also keeping a lid on inflation, the jobs report is seen to be a key input as the central bank decides whether to lift rates.

Included in the list of those in error is Schwartz, writing in the *Times*: "Most economists expect the momentum to continue, but the further drop in the unemployment rate and the healthy increase in average hourly earnings may stock fears of inflation and, in turn, a more hawkish Fed."

One doesn't have to attend a Mises seminar to grasp accurately the cause of rising prices in the economy; he need only to seek the definition from Merriam-Webster: Inflation is "a continuing rise in the general price level usually attributed to an increase in the volume of money and credit relative to available goods and services."

Next, he can easily check just how quickly the Fed is increasing the volume of money and credit in the U.S. economy. M2 is often used as the most accurate measure of that volume. In the latest report from the Fed's Board of Governors on May 31, M2 money supply over the last 12 months has grown by .0035 percent on a seasonally adjusted basis.

Conclusion: Those wage increases reflect the law of supply and demand, and not a measure of significant interference by the Fed. Nor should those wage increases precipitate an increase in interest rates by the central bank.

In this highly toxic political climate, there is another correlation between economics and politics that is worthy of note: There appears to be a negative correlation between an improving economy and the chances for a Democrat "blue wave" taking back the House of Representatives in November. In its summary of various polls *RealClearPolitics* showed a generic Democrat beating his generic Republican rival for a seat in the House in November by 13 full percentage points last December. That margin has continued to drop as the economy has improved, with the latest margin being 3.2 percent in favor of the generic Democrat candidate. A closer look at the number reveals that the most recent individual polls upon which RCP is basing its average are even closer, with Rasmussen Reports' poll taken between May 21 and 25 showing the Democrat with just a one point advantage, well inside the poll's margin of error.

With the improving economy, it isn't surprising that talk of a Democrat "blue wave" taking over the House in November has all but disappeared from the public forums.

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