ECONOMY

Unemployment Rate Hits 3.9%, a Rare Low, as Job Market Becomes More Competitive

By NATALIE KITROEFF MAY 4, 2018

The Labor Department released its April hiring and unemployment report on Friday, providing the latest snapshot of the economy.

The Numbers

■ The unemployment rate was 3.9 percent, the lowest rate since 2000 and a sign that the job market has become even more competitive. It had been 4.1 percent since October.

■ 164,000 jobs were added last month. Wall Street economists had expected an increase of about 193,000, according to Bloomberg.

■ The Labor Department revised the job figures for February slightly downward, but revised the numbers for March sharply upward. The result was a net increase of 30,000 jobs, compared with previous estimates.

■ Average earnings rose by 4 cents an hour last month and are up 2.6 percent over the past year.

The Takeaway

American employers continue to find reasons to expand their payrolls. April marked the 91st consecutive month of job gains, far and away the longest streak of increases on record. The average monthly gain has declined each year since 2014, but that's normal for an economy that's been in recovery for such an extended period.

"We've continued to add jobs routinely every month for so long, and the unemployment rate we have reached is amazing," said Catherine Barrera, chief economist of the online job site ZipRecruiter. "It's very incredible."
The drop in the unemployment rate may be partly explained by a contraction in the labor force last month. Still, the jobless rate is reaching historically low levels. In the last 60 years, there has been only one sustained period where unemployment stayed below 4 percent: the late 1960s.

Ms. Barrera said it was too early to worry about whether the economy is overheating. When the jobless rate hit these levels right before the dot-com bubble burst, the labor-force participation rate was significantly higher than it is today.

“It’s easy to try to analogize and say that’s what we should be preparing ourselves for right now,” Ms. Barrera said. That kind of thinking might prompt some employers to cut back on investments or hiring, which could begin to slow growth.

President Trump’s flirtation with a trade war has thrust uncertainty into the overall economic picture. The White House has offered little clarity about whether its newly imposed steel and aluminum tariffs will extend to allies like Mexico, Canada and the European Union, and it seems no closer to smoothing over economic tensions with China.

Economists say it is too soon to tell how employers may change their staffing or expansion plans in response to the tariffs on Chinese goods, or to Beijing’s retaliation. But there are signs that companies that buy metals are feeling the effects already. The Institute for Supply Management said this week that manufacturing activity grew in April at its slowest pace since last July.

Uncertainty over the price of raw materials could prompt factories to cut back from their recent hiring spree. Manufacturers added 73,000 jobs in the first quarter, much more than in the same period last year.

Wages and the Fed

Economists expect that low unemployment will lead to increasingly big pay bumps for workers as employers fight over a dwindling number of candidates. But this recovery has so far bucked that conventional wisdom.

Wages increased by 2.6 percent over the past year, not much faster than inflation. That modest uptick probably would not prompt the Federal Reserve to raise its benchmark interest rate more aggressively than it has signaled, economists said. Projections released at a Fed meeting this week suggested that officials were leaning toward a total of three rate increases this year.

“Wage growth is just not picking up as we would have expected at this point,” said Matthew Luzzetti, a senior economist at Deutsche Bank. As a result, he said, the Fed will be able “to continue moving gradually.”

One mystery of the American economy is this: How can employers can continue to raise pay so gradually, when the labor market keeps getting tighter? In the 1990s and early 2000s, the last time the job market looked like this, wages for rank-and-file workers rose at an annual rate of around 4 percent.

A host of explanations — ranging from globalization to slow gains in productivity — have been offered to explain the disconnect. Ms. Barrera says businesses may just be stuck in their ways.

“People are creatures of habit,” Ms. Barrera said. “If you have been using a strategy that has been working for you for a number of years, you aren’t going to suddenly change it."

Who's Been Left Out

Even though the labor force shrank over all, the report offered signs that the strong economy is coaxing some people back into the working world. A measure of unemployment that includes people who had given up looking for work hit 7.8 percent, a level not seen since 2001.

"We have realized that there were even more workers on the sidelines than we previously thought," said Martha Gimbel, an economist at Indeed.com, a job-search site. Ms. Gimbel said that her site had seen an increase in people searching for things like "background check" and "full time," which could indicate that the bustling job market has become irresistible for workers who might have been discouraged by a particularly bruising recession a decade ago.

For some groups, the market has been tougher. The unemployment rate for black workers, for example, has consistently hovered well above the rate for white workers, even as employers complain loudly about a labor shortage in sectors like construction and trucking. The job market has improved for black workers in recent years — they still faced a jobless rate of 6.6 percent in April, the lowest level on record. But it was still much higher than the 3.6 percent for whites.

If the numbers were reversed, "the country would be up in arms," said Andre Perry of the Brookings Institution, whose research focuses on race and structural inequality. Differences in education or degrees don't explain that gaping disparity, according to federal data.