Popular Economics Weekly

5.4 Percent Unemployment – 223,000 New Jobs in April

By **Harlan Green** / Special to CASA

THE LATEST UNEMPLOYMENT REPORT IS GANGBUSTERS, as I predicted, with employment returning to pre-recession levels. The U.S. churned out 223,000 new nonfarm payroll jobs in April, which means the U.S. economy's winter deepfreeze was temporary.

But, we are still not out of the Great Recession woods. This is because rising inflation will become a factor as business activity picks up, and that will call for a premature rise in interest rates that Chairwoman Yellen and her Fed Governors have to resist. For history shows that a sustained and historic GDP growth rate of three percent and higher can only be achieved with inflation above two percent, the Fed's target inflation rate. The "target rate" is a rather meaningless term, since it merely means the Fed has to begin to consider when it may have to raise interest rates as a hedge against future inflation.

Why do we need three percent GDP growth? It has been just two percent on average really since 2000. We can't even approach full employment; much less raise wages enough to bring back some semblance of a middle class, otherwise. In fact, there is very little of the middle class left in terms of earning power, with average household incomes still stuck at 1970's levels when inflation is accounted for.

Most major segments of the economy, except for the energy industry, added workers last month, with government finally beginning to hire back some of the 600,000 jobs lost during the Great Recession. The unemployment rate sank to 5.4 percent from 5.5 percent, the lowest level since mid-2008.

And stocks are rallying with the DOW up more than 200 points, so fears of slowing growth from last month's ultra-low job creation numbers were overstated. What's more, the number of people who entered the labor force in search of work also rose, a sign jobs are easier to find. The Labor Department's separate JOLTS report also showed 5.13 million job openings in February, an all-time high.

American workers hourly pay barely rose above inflation, however. The average pay of employees rose 0.1 percent in April to $24.87 an hour, and rose 2.2 percent over the past 12 months. But this still isn't enough to boost GDP growth higher. Wages and salaries have to rise to three percent annually to bring back a historical growth rate of three percent plus that economists are predicting for the rest of 2015.

The CPI inflation Rate in the United States averaged 3.33 percent from 1914 until 2015, says *Trading Economics,* reaching an all-time high of 23.70 percent in June of 1920 and a record low of -15.80 percent in June of 1921. And it has to reach the historical average to bring back historical growth.

That is most crucial. For it will take a very accommodative Fed policy under Chairwoman Yellen to make that happen. It also means the inflation rate itself will have to rise to at least three percent for wages to rise faster. And the bond vigilantes will begin to scream as soon as inflation even reaches two percent.

So Yellen and the Fed Governors must continue to maintain low enough interest rates to allow for a higher inflation rate. The greatest fear from the current slow growth seems to be that of small businesses that comprise some 50 percent of private sector jobs, as reported by the National Federation of Independent Business.

"Overall the economy will keep moving forward, but more like a turtle than a hare. Bad weather was certainly depressing and Washington politics remains focused on issues that have little bearing on the current economy," said Bill Dunkelberg, NFIB Chief Economist

The bottom line is there are more available job openings than ever, and wages and salaries are beginning to grow above the inflation rate. This is a sure sign of a virtuous circle. But policy makers have to allow prices to rise enough to increase business profits above and beyond the inflation rate. This is how economies grow.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.