

Higher GDP Growth = More Jobs

By Harlan Green

The economy expanded at a 3.2 percent annual rate in the fourth quarter of 2010, according to the preliminary report on gross domestic product (GDP) from the Commerce Department. Final sales of goods and services — a better measure of underlying demand than GDP — grew at a blistering 7.1 percent annual rate, offering hope for job creation going forward.

The pace of monthly job losses slowed dramatically soon after President Obama and Congress enacted the Recovery Act in February 2009. The trend in job growth this year has been difficult to discern because of the rapid ramp-up and subsequent decline in government hiring for the 2010 Census (which is now largely over), but private employers added a total of 1.3 million jobs to their payrolls in 2010, an average of 112,000 jobs a month.

The bottom line is that final sales, which are sales made by domestic producers, have picked up significantly, which means employment has to pick up. Growth in real final sales to domestic purchasers (takes out net exports) picked up to 3.4 percent, following a 2.6 percent boost in the third quarter.

The first indication of a jobs pickup in the New Year is the Institute of Supply Management's manufacturing survey, which increased across the board. Indicating a true surge underway in the nation's manufacturing sector, the ISM composite index jumped nearly 2-1/2 points to a rare plus 60 reading at 60.8 for a seven-year high (prior month



revised to 58.5). New orders are the leading component, up nearly six points to 67.8 in a gain that points to a run of 60 readings ahead for the composite index. The other four components of the composite also show month-to-month acceleration including employment which is also in rare territory at 61.7 for a nearly two-point gain and the first plus-60 reading in seven years.

Another sign of increased employment is the rise in both personal incomes and spending, which means consumers feel more confident about their jobs. Personal income in December rose 0.4 percent for the second month. Analysts projected a 0.4 percent increase. Wages & salaries advanced

0.3 percent after edging up 0.1 percent in November.

GDP got a nice lift from the consumer sector (i.e., retail sales) last quarter and it looks like the consumer mood is improving slightly this quarter. This past week both the Conference Board's consumer confidence index and the Reuters/University of Michigan consumer sentiment index improved from their prior readings. Consumer confidence picked up sharply in January led by a big improvement in the assessment of the jobs market. The Conference Board's index jumped more than seven points in January to 60.6 with those saying jobs are currently hard to get falling more than 2-1/2 percent-

age points to 43.4 percent for the best reading in two years.

The University of Michigan consumer sentiment index says Consumer optimism is as strong as it's been since mid-year based on the implied second-half January reading of the consumer sentiment index. The index rose 1.5 points to 74.2 from the mid-month reading of 72.7. For final January, details show special strength in expectations, the index's leading component which is also at its best level since June.

On the inflation front, the PCE price index jumped 0.3 percent, following a 0.1 percent uptick in November. The core rate came in unchanged after edging up 0.1 percent in November. On a year-ago basis, headline PCE prices are up 1.2 percent, compared to 1.1 percent in November. Core inflation eased to 0.7 percent year-on-year versus 0.8 percent in November.

So it looks like we will see a surge in hiring this year with both employers and employees more optimistic about future prospects. And inflation looks to be at the bottom end of the Fed's range, which means interest rates should remain low. Lower interest rates also mean real estate has the chance to improve this year.



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