EXCHANGE --- Heard on the Street: The Economy's 'Help Wanted' Sign --- Sluggish workforce participation doesn't bode well for action by the Fed

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FULL TEXT

[Financial Analysis and Commentary]

There are two ways for the job market to cool off. One is for hiring to slow considerably. The other is for more people to enter the labor force. The latter is obviously preferable, but it isn't clear how much of the latter the U.S. is going to get.

The Labor Department on Friday reported that the economy added a seasonally adjusted 428,000 jobs in April -- equal with March's gain and showing employment is growing at a heady clip. The unemployment rate, which is based off a separate survey, held at a very low 3.6%.

The Federal Reserve now wants to cool the job market down. The shallower the supply of workers gets, the more wages rise and the harder it will be to bring inflation back under control. But hiring isn't a switch the central bank can simply turn on and off. It will take time for its interest-rate increases to work their way into an economy in which underlying demand remains strong. The Labor Department reported earlier this week that as of March there were a record 1.9 job openings for each unemployed worker. That indicates employers are so desperate for workers that even slower demand growth might not soon put a dent in the job market.

What would help the situation a lot is for more people to come back into the workforce. Even though the unemployment rate is barely higher than the 50-year low of 3.5% it registered in February 2020, just before the Covid-19 crisis struck, there were 1.2 million fewer jobs than there were back then. Throw in population growth and the shortfall from prepandemic levels is even larger.

The reason the unemployment rate is low despite reduced employment levels is that, to be counted as unemployed, one must be actively seeking work. A lot of people aren't doing that. The labor-force participation rate -- the share of workers with a job or actively looking for one -- was 62.2% last month, versus 63.4% in February 2020. That is, of course, much better than it was during the worst of the pandemic, but a lot of the things that seemed like they might draw even more people back into the labor force, such as the availability of vaccines, the easing of Covid-19 concerns and the ending of extra benefits for the unemployed, didn't have as much of an effect as economists hoped.

Maybe with the advent of warmer weather, the continued easing of Covid-19 worries and the erosion of savings many Americans built up during the pandemic, more people will go on the job hunt. That is certainly what the Fed is looking for: In his press conference Wednesday following the Fed's meeting, Chairman Jerome Powell said that he and other members of the central bank's rate-setting committee "generally expect that we'll get some additional participation."

If that increase doesn't come, however, the Fed will be put in a position where it will feel it needs to bring job growth down sooner rather than later. To do that, it will need to lift rates more quickly, raising the odds that it goes too far and sends the economy into a recession.

Credit: By Justin Lahart

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