ECONOMIC DATA

U.S. Gained 200,000 Jobs in January as Wages Picked Up

Average hourly earnings for private-sector workers rose 2.9% in January from a year earlier

By Ben Leubsdorf
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A tightening labor market delivered the biggest annual increase in wages since the end of the recession, a new signal that American workers are beginning to enjoy the pay raises long missing in a steady but tepid expansion.

The Labor Department reported Friday that average hourly earnings for private-sector workers rose 2.9% in January from a year earlier, their largest year-over-year increase since June 2009, when the last recession ended.

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Businesses had been reporting for months that the pool of available workers was becoming tight across a range of industries as unemployment fell, forcing them to push up pay. But it hadn't shown up clearly in economic data.

The latest evidence of a pay pickup came in the government's closely watched monthly jobs report, which also showed that nonfarm payrolls rose a seasonally adjusted 200,000 in January, more than economists had expected. The unemployment rate held at 4.1%, its lowest level since December 2000, for the fourth straight month.

January was the 88th consecutive month of job creation, the longest streak of continuous hiring on record and a testament to the durability of the economic expansion that began in mid-2009, even though the pace of overall economic growth has lagged behind historical levels.

"You're slowly getting back to a more normally functioning economy," said Steven Blitz, chief U.S. economist at TS Lombard.

Investors took the report as fresh evidence that the economy is heating up and lifting long-dormant inflation. Yields on 10-year Treasury notes, which tend to rise on signs of inflation, jumped to 2.852% on Friday. They had been near 2% in September.

The stock market, reacting in part to fears of rising interest rates rather than hopes of a stronger economy, fell sharply. The Dow Jones Industrial Average declined 665.75 points, or 2.54%, to 25520.96.

Monthly wage data can be volatile. A wage pickup in 2015 and 2016 stalled last year. Moreover, there were some blemishes in the latest wage numbers. The average workweek declined in January, meaning the average weekly paycheck declined from December even though hourly wages rose. Managers seemed to enjoy the biggest raises; wages for production workers and non-supervisors, who account for 82% of the private-sector workforce, rose a more modest 2.4% on the year.

Still, the latest pickup in wages seemed to confirm what executives in boardrooms have been saying for months about the challenges of keeping workers when labor was becoming more scarce. A separate Labor Department report earlier in the week showed private-sector wages and salaries were up 2.8% in the fourth quarter from a year earlier, matching the strongest year-over-year gain since 2008.

A worker removes a spool of string trimmer line at the Stihl Inc. manufacturing facility in Virginia Beach. **PHOTO:** LUKE SHARRETT/BLOOMBERG NEWS

Jason Patrick, who owns the Nashville, Tenn., office of staffing firm Express Employment Professionals with his wife, said the tightening labor market means more workers are jumping to new jobs compared with recent years.

Pay for workers placed by the firm has gone up 11% over the last year, he said, as companies try to retain employees. Also, "they are having to provide more training, more development for their people, better engagement with their employees," Mr. Patrick said. "They're really having to work to keep their talent."

Some Federal Reserve officials have said the U.S. has reached full employment, a stage in the business cycle when almost everyone who wants a job can find one. In theory, if the jobless rate falls much more at a moment of full employment, the economy would overheat, creating sustained inflation above the Fed's 2% target or unhealthy booms in financial markets. The Fed tends to respond to such overheating by raising short-term interest rates to increase the cost of borrowing, investing and spending, and to cool the economy.

Investors and analysts expect the central bank will raise short-term interest rates at its next policy meeting in March. Fed officials in December had penciled in three quarter-percentage-point rate increases in 2018, but some officials may push for a faster pace if price and wage growth strengthen.

"We've been waiting for wage growth," and Friday's report contained "one of the first signs that we're seeing wage growth finally start to pick up," Federal Reserve Bank of Minneapolis President Neel Kashkari said Friday on CNBC. He added, "I do think, if wage growth continues, that that could have an effect on the path of interest rates."

The U.S. economy entered 2018 with healthy momentum after posting its best year of growth last year since 2014. Many forecasters expect growth will be supported this year by solid consumer and business confidence, stronger conditions overseas and tax cuts at home that could boost investment and spending.

That is all driving an ever-tighter labor market. Six states boasted record-low unemployment rates in December.

Balsam Brands Inc., a seller of artificial Christmas trees and other home-decor products, is based in Redwood City, Calif., outside San Francisco. But high pay and aggressive competition for workers in the area have prompted the company to expand its office in Boise, Idaho, which has a lower cost of living.

Claire Magat, head of human resources, said the company, with a U.S.-based staff of around 100, plans to add at least 20 new positions this year in Boise, versus just five in its home region.

"By shifting more of our head count growth to Boise, it's allowed us to stay on that trajectory—growing the company and growing the team without making sacrifices elsewhere," she said.

A tighter labor market is a boon for Americans looking for jobs.

Theresia Carrigan, a 29-year-old licensed social worker in Maryland, was let go from her job at a crisis housing shelter in January. She said she braced herself for an extended period of unemployment, but found employers were eager to snatch up qualified workers.

> "Places are calling back within, not days, hours," she said. "I was getting interest within less than a day, places calling me back for interviews."

Ms. Carrigan said she was hired within a week by an eldercare agency.

A number of large employers have recently announced one-time bonuses for their employees, with some crediting the recent tax-code overhaul. The Labor Department excludes irregular bonuses from the earnings data featured in Friday's employment report.

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