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Job Growth Is Up, Production Down

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The most important indicators of our economic health are telling very different stories. On Wednesday, news reports made much of the fact that gross domestic product fell at an annual rate of 2.9 percent in the first quarter of this year, a decline largely attributable to bad weather. That brings growth over the past year to a disappointing 1.5 percent. Yet the labor market continues to deliver good news, and over the same period, the unemployment rate fell by more than a full percentage point.

In normal times, much stronger economic growth would be required to reduce unemployment. Indeed, the relationship between the rate of economic growth and the change in unemployment is usually so strong that economists have given it a name, Okun’s Law. But the latest data are so unusual as to constitute one of the largest recorded deviations from Okun’s Law.

Partly, this reflects healthy employment growth despite a disappointing recovery, at least as measured by gross domestic product. This is the exact opposite of the “jobless recovery” theme seen in the initial post-recession turnaround, which yielded weak jobs growth despite a healthy recovery. And partly, it reflects that unemployment is falling faster than might be expected given the rate of jobs growth, a consequence of declining labor force participation.

The upshot is that we’re in the unusual situation where the recovery feels too slow, too fast, and just right all at once, depending on whether you’re emphasizing sluggish economic growth, the remarkably rapid decline in unemployment or healthy increases in the number of jobs.

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