Pump up the volume... The Bureau of Labor Statistics’ report on November employment, released December 4, indicated that nonfarm payroll employment expanded by 267,000 people, more than double analysts’ typical estimate. Mismatches of such magnitude are not rare; in this case, though, the discrepancy prompted a 136-point rally in the Dow Jones average because most observers had expected the employment report to confirm a downshift in U.S. economic growth. After all, jobs growth was stronger in the first half of this year than in the second half, and the figures for September and October showed successive declines from the gains posted for August.

Moreover, observers had been expecting that weakness in the nation’s manufacturing sector would continue to plague labor markets. On this score, they were right (manufacturing jobs dropped by 47,000 last month), but service sector gains more than made up for that decline. The November data, including an unemployment rate of 4.4% and a near-record employment-to-population ratio of 64.1%, suggest that labor market conditions remain on par with those for the year as a whole.

The labor market report was not the only recent statistical surprise. A few weeks earlier, the Commerce Department had published its preliminary third-quarter estimates, showing far stronger growth for the quarter than its previous report had indicated. Consumer spending accounted for most of the difference. Along with this information came news of accelerating productivity growth in the nonfarm business economy as a whole, as well as within the manufacturing sector. October housing starts, for example, were announced shortly after the GDP report. Specialists had forecast that single- and multifamily housing starts would sum to about 1.60 million units (at an annual rate), an increase of only 1%. Instead, the Commerce Department reported a figure of 1.65 million units, representing a 7% annualized gain over September.

Adding to the stock of data revisions, last month the Federal Reserve released new information on industrial production and capacity utilization from 1992 to the present. It shows that beginning around 1996, industrial production actually accelerated more rapidly than earlier reports had indicated, and that capacity utilization rates were slightly greater. These new figures may help explain why, when compared with previous economic expansions, labor market tightness appeared out of synch with capacity utilization rates.

What do we learn from the new statistics and data revisions? With the exception of manufacturing, the pace of economic activity appears to be strong and labor markets remain very tight. We also know that consumers—perhaps encouraged by a rebounding stock market—have been raising their debt levels to support their spending activities. At the same time, corporate profitability has been slowing. One reason may be that real wages have recently been accelerating farther beyond the growth in labor productivity than they had earlier in the expansion, pushing unit labor cost increases up by a wider margin. Since 1997, unit labor costs have been outpacing inflation, evidence that further price and profit pressures lie ahead.

Most analysts expect that the rate of economic growth will shift down considerably in 1999 to something like 2%, much slower than its latest four-quarter change of 3.5%. This is important, certainly, but why should it be considered the single most interesting topic of economic speculation? After all, it does seem likely that sluggish foreign demand will hamper U.S. manufacturing activity and cause our trade deficit to expand. However, the nation’s economy demonstrated impressive capacity for growth in the mid-1980s, despite deterioration in its export markets and manufacturing sector. As long as household spending remains strong and foreigners are willing to finance our consumption, the expansion can endure.

More important than the expansion’s rate of growth will be whether it follows a path that puts continuity at risk. For example, will further expansion bring a stronger dollar, lower interest rates, and very low inflation—or a depreciating dollar, rising interest rates, and accelerating inflation? Will expansion be accompanied by further outsized gains in equity prices—or by temperance? Sustainable economic growth requires more than just posting big GDP numbers on the scoreboard; sometimes it calls for old-fashioned moderation.