ECONOMY

Job Growth Falls Short of Estimates

February Data on Payrolls
Fuel Worries Consumers
May Slow Their Spending

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Until recently, economists were merely puzzled that the expanding U.S. economy was failing to produce many new jobs. Now they are starting to get worried about it.

In a report described by one government economist as a "limp handshake," the Labor Department said Friday that just 21,000 payroll jobs were created in February; economists had expected about 125,000. The unemployment rate remained at 5.6%, but that was because more Americans dropped out of the labor market, many deciding that job hunting was a waste of time.

Unless job creation picks up within the next few months, consumers may grow more jittery, as they watch friends and neighbors struggle to find work. That, in turn, could prompt Americans to slow spending, warned Sung Won Sohn, chief economist at Wells Fargo & Co. "The risk of economic slowdown has clearly increased," he said.

The positive news in Friday's report was that it underlined continued improvements in productivity as companies find ways to raise output without expanding their work forces. While painful for many workers, these productivity gains have helped boost corporate profits and held down interest rates. In another positive development, job losses in manufacturing are slowing. Factories shed 3,000 jobs in February, down from 13,000 in January and a range of 40,000 to 60,000 a month last summer.

Still, the job-market stagnation portrayed in Friday's report was more bad news for President Bush. Even if the labor market does get better soon, as many economists expect, that could come too late for the president to get credit before the November election.
Mr. Bush's predicament is all the more difficult because there is little more that Washington can do to pump up growth during coming months. The Bush administration's mammoth tax cuts have given the economy some juice during the past two years, but the resulting record budget deficits make it impossible to push through new reductions soon. Agencies could perhaps introduce some additional marginal stimulus by accelerating spending, however. The Federal Reserve's interest rates are at a 40-year low, and Chairman Alan Greenspan has made clear that the best he can offer is to keep them there for a while, not go any lower.

Many companies are relying on temporary workers or delaying hiring until they are sure the recovery will stay on track. Consumers so far have kept spending. Gross domestic product, the nation's output of goods and services, during the fourth quarter was up 4.3% from a year earlier. Many economists believe it is growing at a similar pace during the current quarter. By contrast, the average growth rate since 1930 is just 3.5%.

"From a historical perspective, [the lack of job growth] is stunning, given what is happening to GDP," said Alan Blinder, a Princeton University economist and a former governor of the Federal Reserve Board. According to Friday's report, average hourly earnings edged up 1.6% from a year earlier in February, the smallest year-to-year change since 1986. Mr. Blinder said the risk of a slowdown in consumer spending is "the biggest hazard to this expansion. Every month we go with labor income stagnating raises the hazard level."

Despite the job market, sales at U.S. retail stores proved robust in February, rising 6.7% from a year earlier, excluding the effects of new store openings. As they keep shopping, Americans are going deeper into debt. The Fed reported Friday that consumer-credit outstanding grew at a faster-than-expected annual rate of 8.6% in January.

Mr. Blinder noted that economists often have worried too much about the ability of consumers to keep spending and paying their bills. He recalls similar worries within the Fed in 1994 during the early stages of the last expansion.

One major reason for the puny job-creation numbers is that companies have been squeezing more output from their existing workers. Macroeconomic Advisers, a research firm in St. Louis, estimates that the productivity of the U.S. nonfarm work force is growing at a 4% rate in the first quarter, up from the fourth-quarter rate of 2.6% and the 2.3% average during the past 55 years.

--Jacob Schlesinger contributed to this article.

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