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ECONOMY

Payrolls Grow by 112,000 Jobs, But Pace Is Less Than Expected

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WASHINGTON -- The job market struggled back to life as the new year began but job creation remained well below a normal pace, a setback both for the unemployed and for President Bush.

The unemployment rate fell to 5.6%, a two-year low, in January from 5.7% in December. But nonfarm employers boosted payrolls by only 112,000. That is well below the 150,000 to 200,000 jobs needed to keep up with population growth. Even more are needed to put back to work the millions of people who have lost their jobs in recent years.

While the job gain was the best in three years, it was still a disappointment. That is because after December's shockingly weak payroll gain of just 1,000, many economists thought a big rebound was in store. Surveys found the average estimate on Wall Street was for a gain of 160,000 jobs, with some expecting up to 300,000.

While December's gain was revised upward to 16,000 jobs, the recent performance is "still not nearly enough to declare labor demand healthy," said RBC Greenwich Capital economist Steve Stanley. Payroll growth has averaged just 45,800 since August. At a comparable point after the 1990-91 recession, payrolls were rising an average of 201,000 a month.

The weak job market has perplexed and worried both the Federal Reserve and the White House. The economy officially exited recession in November 2001, and since then, economic growth has been relatively healthy. But employment has not kept up, because employers have been able to steadily boost productivity, or output per worker. As a result, even with January's gain, payrolls remain 2.35 million below their March 2001 peak.

Mr. Bush is keenly aware that weak job markets endanger his re-election chances this fall, and has been willing to slash taxes and let spending soar from the view that job growth is more important than the deficit. But with this year's deficit now projected at a record $521 billion for fiscal 2004 (though that is...
not a record relative to gross domestic product), it is becoming harder for him to ignore the fiscal consequences of concentrating solely on stimulating growth.

The White House and private economists continue to predict that with economic output recovering, it is only a matter of time before employers find they can’t boost productivity further and have to start hiring in significant numbers. The budget predicted "significant payroll gains" in 2004 though job growth "may remain uneven" through the early part of the year.

Democratic candidates, meanwhile, are attacking both his job creation and fiscal record. North Carolina senator and Democratic presidential candidate John Edwards said because of Mr. Bush's policies, "profits keep climbing because [companies] are cutting payrolls and benefits, and our twin deficits -- our budget deficit and trade and capital deficits -- are preventing our country from providing the real investment in our economy that would create hundreds of thousands of jobs every month."

The report did contain some glimmers of positive news. The average workweek expanded to 33.7 hours from 33.5. Expanded work hours are often a precursor to more hiring. But that didn't even return the workweek to November's level. And hiring at temporary-staffing firms, another leading indicator, dropped 21,400, the first decline since April.

Some economists had thought the payroll report was systematically underestimating the number of new jobs, perhaps because the Labor Department was having trouble counting employees at newly created firms. They noted that the separate survey of households, used to calculate the unemployment rate, showed many more people with jobs. Even adjusting for differences in what they measure -- the household survey counts the self-employed, domestic helpers like nannies, and farm workers, while the payroll survey does not -- the household survey still showed several million more people employed than the other survey.

But new data revisions released Friday significantly undercut those arguments. Using updated unemployment insurance records, the Bureau of Labor Statistics actually reduced the overall level of payrolls last year by anywhere from 81,000 to 163,000, depending on the month. Furthermore, because of updated population estimates, household employment in 2003 was probably 409,000 lower than estimated, although the Labor Department is not revising last year’s data to reflect that. Both developments strongly suggest that there is little systematic undercounting of jobs in the payroll survey, and if anything the household survey is overcounting them.

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