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MARKET WATCH

The No-Bang, All-Whimper Recovery

By GRETCHEN MORGENSON

THE jobs report on Friday was a stark reminder to investors of why trusting the consensus view of anything economic - the stock market, interest rates, commodity prices - can be such a peril.

Economists had forecast an increase of 150,000 jobs in December. They were off by a mere 149,000.

Other aspects of the employment figures disappointed, too. More than 300,000 people dropped out of the job pool and the index of hours worked fell below the level of 1998. The manufacturing sector shed jobs, as it had for the previous 40 months, but so did the retail and financial service industries. Finally, November's upbeat job report was revised downward.

One economist who was unsurprised by the figures is Stephen S. Roach, chief economist at Morgan Stanley. Arguing for months that a lasting recovery cannot be built on an increasingly indebted consumer, a declining savings rate and widening current-account and trade deficits, Mr. Roach's has been a voice in the wilderness.

Bulls on the economy have snickered at his warnings that, contrary to some of the data, the domestic labor market was not rebounding. Now he looks prescient.

"We had a spectacular second half of '03 in G.D.P. because of tax cuts, the last-gasp spending of the refinance cycle and price cuts on motor vehicles," Mr. Roach said. "But we haven't had job growth and income generation. Consumers can't continue to carry the ball with their incomes lagging."

The consumer, of course, has been a stalwart spender for years in spite of significant job losses, a nonexistent savings rate and increasing personal debt. Counting out the consumer has been folly.

"I think the 90's taught people to spend not just out of their paychecks but also out of their assets," Mr. Roach said. First, the stock market, then their homes.

But the unpleasant reality remains that private-sector payrolls are now 7.5 million workers below the level that would be typical 25 months into an economic recovery, he said. This trend may well continue, he said, and for several troubling reasons.

They all have to do with the outsourcing phenomenon that has swept through the manufacturing world and is now threatening service jobs. Thanks to the Internet and the continued push for productivity, more American companies are turning to offshore workers.

And Mr. Roach sees no reason for that to change.

"In the last five months, 280,000 jobs have been created, a number that we get easily in a month during a normal recovery," he said. Most of the new jobs are in temporary staffing, health and government, he added.

"The days of an old-fashioned hiring-led recovery are over," Mr. Roach said. "And we have to face that, in terms of understanding the potential for our economy to keep growing as many in our financial markets are now blindly assuming will be the case."

Mr. Roach said the second half of 2004 might bring an economic relapse. Hmm. That would heat up the presidential race.

Also casting doubt on the recovery is Robert H. Parks, economist and professor of finance at Pace University. He said he thought that interest rates would rise significantly by the end of the year, pushed up not by Alan Greenspan, who never saw an asset bubble he didn't like, but by the bond market vigilantes. "Deficits financed by way of freshly printed money to fund tax cuts, pork-barrel spending and huge outlays for military spending are going to generate headline news on sharply rising interest rates, long before 2004 is over," Mr. Parks said.

Just something to think about for those with portfolios chock-full of high-priced stocks and bonds.