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Growth in Jobs Came to a Halt During December

By LOUIS UCHITELLE

Job growth came to an unexpected halt in December, the Bureau of Labor Statistics reported yesterday, and rather than hunt for scarce work, tens of thousands of people disappeared from the labor force.

Most forecasters had said they thought December would be a breakthrough month for job creation, given the strengthening economy. But instead of the 150,000 new jobs they had expected, there were a minuscule 1,000. The unemployment rate dropped to 5.7 percent from 5.9 percent in November, but that was mainly because so many people chose not to look for work, a requirement to be counted as unemployed.

"We thought we were finally moving out of the jobless recovery, that the work force was really growing at last," said Nigel Gault, chief domestic economist for Global Insight, a research and forecasting firm. "And now this report is telling us we are still stuck in a jobless recovery."

President Bush, speaking in Washington before a group of small-business owners, focused on the drop in the unemployment rate, which he called "a positive sign that the economy is getting better."

Other administration officials called attention to the few positives in the report — for example, job growth in construction, education and health care. "We think we have the policies in place to produce job growth going forward," N. Gregory Mankiw, chairman of the President's Council of Economic Advisers, said in an interview, referring to what he described as the stimulus from the Bush tax cuts.

But there is little more the president can do to stimulate the economy, and the administration is not likely to get much more help from the Federal Reserve, which has already lowered short-term interest rates to just 1 percent. That leaves the White House waiting and hoping that the employment picture improves between now and the elections.

For Democrats on the campaign trail, the employment numbers were an opportunity to heap criticism on the administration.

"With the recovery that we're supposed to be in, adding a thousand jobs is pathetic, nothing short of pitiful and pathetic," Representative Richard A. Gephardt of Missouri told reporters in Concord, N.H. "This president is presiding over an economy that is still not producing jobs."

The government lowered by more than a third its original estimates of the number of jobs created in October and November. Instead of an increase of 143,000 jobs in those months, the revised total was 94,000.

That shaved the total job creation to 278,000 in the five months that the economy has been adding jobs. Most economists maintain that job growth must proceed at a pace of at least 150,000 a month, on average, to absorb everyone who wants to work — a rate that the economy is lagging well behind.

Citing the weak labor market, Ben S. Bernanke, an influential governor of the Federal Reserve, declared in a speech Sunday that the central bank would keep interest rates down to encourage borrowing and spending to keep the recovery from dying out. Yesterday's jobs report only reinforced the prospect that rates will stay low, and in response, bond prices rose and stock prices and the dollar fell, as they often do on such news. The Dow Jones industrial average fell 1.26 percent, closing at 10,458.89.

The jobs data left economists struggling to reconcile the nation's strong economic growth with faltering employment. How can the output of goods and services be going up so briskly, as most statistics show, without bringing up employment, too?

One answer is productivity. The output from an hour of work has been rising faster than the demand for what is produced, and employers have brought the two into balance by holding back on hiring while pushing existing workers to keep up their output.

"I think we got slower productivity growth in the fourth quarter than the third," Mr. Gault said, "but when it will run out enough so that we have to create more jobs is anybody's guess." Data on productivity in the last three months of 2003 will be released next month; in the third quarter, productivity rose 9.4 percent.

The second explanation that some economists cite is statistics that they describe as faulty, or at least conflicting.

The bureau calculates employment two ways. It surveys net job changes at 400,000 companies representative of the nation's nearly nine million incorporated businesses. Most economists regard that method, called the payroll survey, as more reliable and comprehensive than the bureau's household survey, in which members of 60,000 households are interviewed each month.

But the household survey is better at catching self-employment and off-the-books work than the payroll survey. According to the household survey, job creation averaged 278,000 a month from October through December, even allowing for 54,000 jobs lost in December. That was nearly six times the job creation in the payroll survey, and some economists say that at this juncture in the recovery, the household numbers merit more attention.

"The payroll survey is underestimating job creation," said Maury N. Harris, chief United States economist at UBS, the global banking firm. "I don't know by how much, but when all is said and done, you probably will be closer to what household is telling you."

Another hard-to-interpret number in yesterday's report was the drop of two-tenths of a percentage point in the unemployment rate. Unemployment has declined from a peak of 6.3 percent in June, when the many months of weak economic growth in the aftermath of the 2001 recession finally began to give way to a much more visible upturn.

Normally, a falling jobless rate means that the unemployed are seeking and finding jobs. But in December, 309,000 working-age men and women who would normally be job hunting either left the labor force or did not bother to enter it in search of work, the bureau reported.

If they had not either dropped out or found jobs, the unemployment rate would have remained at 5.9 percent.

"Of all the parts of the December employment report that I think are specious, it is the decline in the unemployment rate, which is likely to be reversed next month," said William Dudley, director of domestic economic research at Goldman Sachs.

Dropping out has been a characteristic of the recovery since June, reflecting the struggles of the unemployed amid companies' reluctance to add workers. As a result, the percentage of the working-age population participating in the labor force — that is, employed or seeking employment — fell to 66 percent in December from 66.5 percent in June, a withdrawal of roughly 1.1 million people.

Reflecting this exodus, the employment-to-population ratio — a measure of the percentage of the working-age population actually holding jobs — has been dropping, as well. It has fallen nearly eight-tenths of a percentage point, to 62.2 percent, since the recession ended in November 2001, and 2.1 percentage points since the start of the recession in March of that year.

Federal Reserve policy makers consider this ratio an important indicator of how many jobs can be added without upward pressure on wages or inflation. Mr. Bernanke has cited the weakness in the ratio as an important reason for keeping interest rates low.

The decline in the ratio has been particular sharp among young people, African-Americans and Hispanics, and economists say it may help to explain a deterioration in wages among workers in jobs below the level of manager or supervisor. These workers account for 80 percent of the 130.1 million people in the work force. Their average hourly earnings, which rose 3 cents, to $15.50, in December, are growing at an ever slower annual rate: 2 percent in December, down from 3.2 percent a year earlier.

"What we worry about is consumer spending in 2004," said Mr. Gault, the Global Insight economist. "We got a lot of help in 2003 from tax cuts and from mortgage refinancings. This year, however, we are counting on better employment gains to support consumer income growth and, in turn, consumer spending. If we don't get the jobs, we will have to worry about the consumer."

The biggest jump in employment last month, a rise of 30,000, came in jobs for temporary workers. Economists said those gains reflected the reluctance of employers to take on permanent workers until the recovery becomes much stronger.

Manufacturing, which has shed workers all through the recession and recovery, lost 26,000 more jobs in December, on a seasonally adjusted basis. On that basis, jobs also disappeared in retailing, hotel work and restaurants — 42,000 in all.

Despite the mild job growth since August, total employment fell last year by 331,000 on top of a 1.5 million drop in 2002. The last time employment, as measured by the survey of 400,000 establishments, declined for two consecutive years was in 1944 and 1945 as war production wound down.