

Indicators Signal Recovery's Fragility

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New claims for unemployment insurance rose to their highest level since June last week, in a worrying sign of a weakening U.S. job market.

The Labor Department reported the number of people filing new jobless claims rose 11,000 to 428,000—the second straight week in which claims rose. Meanwhile, inflation ticked up. Consumer prices rose a seasonally adjusted 0.4% in August from July, the Labor Department said in a separate release.

"It is pretty grim out there," said **Bernard Baumohl**, chief global economist with the Economic Outlook Group, a research firm. "It is really difficult to find any sustained source of strength in the U.S. and international economy."

One area that has been strong—manufacturing—provided mixed readings on Thursday. Surveys from Federal Reserve banks in New York and Philadelphia pointed to contraction in those regions' factory sectors. But Federal Reserve data showed industrial production rose 0.2% in August, the fourth straight monthly increase.

The big question is how consumers react to the shaky economy. For months, surveys have shown that they are more and more worried about the economy, but that hasn't resulted in a huge drop in spending. On Wednesday, the Commerce Department said retail sales were flat in August, which economists said suggested an economy that could go either direction.

"We're vulnerable," said Michael Gapen, an economist with Barclays. "We're growing, but not enough to withstand a significant shock."

Roseburg Forest Products is among companies getting ready for a long downturn. For more than a year, the Roseburg, Ore., maker of lumber, plywood and other wood products stuck to mostly small cuts—such as scaling back hours or not filling vacant jobs—but steered clear of widespread layoffs in hopes the recovery would ramp up.

But with construction still in the doldrums and consumer confidence waning, the company is retrenching: Over the past several months Roseburg closed a mill in South Carolina and laid off between 300 and 400, mostly factory workers, out of a company total of 3,000.

"Over the course of the last two or three months we've just gotten to the point where we've got to deal with what we've got," said spokesman Mark McLean. "We're starting to say 'Hey, we've got to deal with the facts today.' "

The job market continues to be the biggest drag on the economy. Thursday's data on first-time claims came after the economy failed to add any new jobs on balance in August and suggest the U.S. labor market remains far from a recovery.

Rex Lewis, an unemployed advertising salesman in Dallas, said that when he heard the grim August jobs figures he reacted with "a mixture of disbelief and anger." Out of work since April, Mr. Lewis, 60 years old, said he has seen no evidence of an economic recovery, and expressed frustration with President Obama and other political leaders.

"I feel like saying: 'How many times do you have to fail?'" Mr. Lewis said. "If it isn't working, change gears."

Mr. Obama last week proposed a \$447 billion initiative intended to create jobs. Most economists say the package would create at least some jobs, but it remains unclear how many of the president's proposals will get through Congress.

In the absence of action from Congress, some economists have looked to the Federal Reserve to stimulate the economy. Many expect the Fed to announce initiatives when it meets next week. But the central bank has been divided over how aggressively to act, and inflation fears could make the Fed more cautious.

Inflation fell slightly in August from July. But prices are now up 3.8% from a year ago, and core inflation, which excludes volatile food and fuel prices, is up 2% for the first time since November 2008.

Higher prices are hurting both consumers and businesses. Lonnie Pollock, who runs a paper-goods manufacturing and distribution business in Grand Prairie, Texas, said he has tried to pass on rising cost of materials and fuel to his customers amid the weak economy. Mr. Pollock said he has had little choice, given the higher prices he is paying. "At the end of the day, you've got to pass some of this through," he said. "There's no way to absorb it all."