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U.S. adds 96,000 jobs in August; unemployment rate drops to 8.1 percent

By Michael A. Fletcher, September 7, 2012

The nation's pace of job creation unexpectedly slowed in August, according to government figures released Friday, raising expectations that the Federal Reserve will inject the flagging economy with its biggest stimulus initiative in two years.

Employers added just 96,000 jobs last month. And despite sitting on a pile of cash, companies said they continue to hold back on hiring in the face of fragile business conditions, slowing growth around the world and uncertain national policies.

The tepid jobs recovery has spanned virtually every sector of the labor market over the past year. Manufacturing, once a bright spot, hit a bump in August and shed jobs. Construction hiring remained mired in a slump, while cash-starved state and local governments continued to slash payrolls. Just about the only sectors that added jobs were financial services and the health industry, but those gains were not enough to lift the job market from the deep hole caused by the recession.

The weak job figures posed a post-convention setback for President Obama, who argued that he is slowly getting the economy on track but needs more time. The campaign of Republican challenger Mitt Romney said the report confirms the administration's ineffectiveness on the economy.

This year, employers have added an average of 139,000 jobs a month, below last year's monthly average of 153,000, and just over the number needed to meet the normal expansion of the labor force.

But few things are normal in this recovery. The unemployment rate declined in August to 8.1 percent, a drop that occurred largely because 368,000 people left the labor force. The Labor Department counts only those actively seeking a job as unemployed.

The percentage of people older than 16 in the workforce reached its lowest level since 1981, according to the Labor Department. Nearly 70 percent of men were working or looking for a job — the lowest percentage since the government began tracking the statistic in 1948.

Economists attribute the workforce decline, which accelerated with the country's economic problems, both to an aging population and the despair engendered by an unemployment rate that has hovered above 8 percent for 43 consecutive months.

The bleak report is all but certain to spur the Federal Reserve to expand its efforts to generate faster economic growth and lower unemployment. The central bank, whose policymakers meet next week, is strongly considering pumping hundreds of billions of dollars into the mortgage market.

The Fed is likely to extend its plan to hold interest rates near zero for up to a year — moving its guidance from 2014 to 2015, as investor expectations soar about what the U.S. central bank will do to speed up the nation's sluggish economic recovery.

The central bank, which has not yet made any decisions, will announce what actions it is taking on Thursday after the conclusion of a two-day policymaking meeting.

The Fed signaled last month that it was nearing new action — absent a sudden positive turn in the economy — and Fed Chairman Ben S. Bernanke increased expectations further last week when he identified mass unemployment as a "grave concern" that the central bank must forcefully address.

"The missing link is that companies find it hard to justify hiring more people because the economic outlook is so unclear," said **Bernard Baumohl, chief global economist at the Economic Outlook Group.** "That is one reason we have seen so much cash pile up for companies. They are not going to spend it until they get a better understanding of what tax, government spending and regulatory policy will be for the foreseeable future."

Manufacturing generally had been a bright spot as the economy struggled to regain its footing.

From 2000 to 2009, the sector averaged about 45,000 lost jobs per month. "It was a bloodletting," said Scott Paul, executive director of the Alliance for American Manufacturing.

Since 2010, thanks in large part to a revamped auto industry, the sector has seen steady, if slow, growth.

But in August, manufacturing cut an estimated 15,000 jobs, according to Friday's Labor Department report.

"It's a little disheartening to see the slowdown, particularly in manufacturing, after a good $2^{1}/_{2}$ years of generally very good news for the sector," Paul said.

Paul said he hopes the weak numbers don't signal that manufacturing has lost its momentum. He said he and others in the industry worry about the "policy stagnation" in Washington. They see little appetite on Capitol Hill for infrastructure investments or new manufacturing tax credits and little willpower by the administration to deal more forcefully with China's currency manipulation, which can hinder the competitiveness of U.S. manufacturers.

"Manufacturing in the private sector needs the right public policies to support it," Paul said. "And right now, they aren't getting that."

But he added that all the blame doesn't belong in Washington. The debt crisis in Europe and economic slowdown in China also have crimped business, he said.

"You wonder where the demand is going to come from," Paul said. "What's happening globally is having an extraordinary impact. A lot of this equation is really out of our hands, which is a really frustrating place to be."

The nation added 1,000 construction jobs in August, continuing a trend of sluggish employment growth after the sector was decimated by the recession. Weak construction spending coming out of the downturn has kept builders in a precarious position.

"With people losing their homes, renovating apartment complexes has been a big component of our business for the last couple of years," said Maurice Opstal, president of Stellar Development in Bradenton, Fla.

The private sector created 103,000 jobs in August, while the number of government jobs fell by 7,000. Over the past year, the nation has shed 166,000 public-sector jobs as municipalities and states have been forced to lay off workers.

In Plain City, Ohio — a village of about 4,225 people 20 miles west of Columbus — eight employees are slated to lose their jobs in coming months after officials voted recently to slash the budget. The layoffs will involve the town's one full-time police officer and a full-time administrative assistant in the zoning department, as well as two part-time police officers and four part-time grounds workers responsible for maintaining parks and city streets.

"We're just to the point that we have nothing left to cut," village administrator Steve Hilbert said. "There's just nothing left, except for cutting people. So that's what we had to do."

One sector that has picked up hiring has been professional services, which the government says has added 576,000 jobs over the past year.

“We plan to hire 4,100 experienced professionals in the U.S. this year,” said Larry Nash, Americas director of experienced and executive recruiting at Ernst & Young, a business advisory firm. “We definitely see growing demand for our services, and we think that is a good sign for the economy.”

Still, Nash said, his counterparts in other businesses do not appear to be as optimistic. “What we see among our clients is still a hesitation to invest,” he said, “because of uncertainty with the global economy and the fiscal cliff” — the series of tax increases and spending cuts slated to go into effect next year.

Brady Dennis, Danielle Douglas, Zachary A. Goldfarb and David Nakamura contributed to this report.