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Job Growth Steady, but Unemployment Rises to 7.9%

By CATHERINE RAMPELL February 2, 2013

Political gridlock over fiscal policy didn't push the economy off a cliff. But it certainly isn't helping anything, either.

Despite the chaos and uncertainty hovering over tax rates and government budget cuts at the turn of the year, job growth accelerated at the end of 2012 and was even faster than originally estimated, the Labor Department said on Friday. Job growth also continued at a steady if modest pace in January, with employers adding 157,000 payroll positions, though the unemployment rate ticked up to 7.9 percent.

Better readings on construction spending, manufacturing and consumer sentiment released on Friday also allayed fears that had arisen from a sour report on the nation's economic growth earlier in the week.

The upward revisions to job growth, in particular, [encouraged traders on Wall Street](#), sending the Dow Jones industrial average over 14,000 for the first time since 2007.

“The economy, sales, employment and the stock market are all higher in spite of the bickering and rancor in Washington,” said **Bernard Baumohl, the chief global economist at the Economic Outlook Group**. The latest numbers “all point to an economy that is building steam and a private sector that seems almost dismissive to the sequestration and debt ceiling threats from Washington.”

Still, job growth has been modest compared with previous recoveries, and the unemployment rate has been stuck just below 8 percent since September. And Washington is gearing up for yet another showdown over fiscal policy, with severe spending cuts kicking in on March 1 if Congress fails to reach a

budget bargain, just as Americans are starting to notice the larger tax bite in their paychecks from higher payroll and income taxes.

“Negotiations over the debt ceiling and the budget resolution and sequestration have the potential to be very messy and very extended,” said Ian Shepherdson, chief economist at Pantheon Macroeconomic Advisors. Businesses still seem “very vulnerable to surprises. I don’t think we’ve got the solidity and robustness and willingness to look beyond these short-term disturbances yet,” he said.

Within January’s employment report, construction was one of the more encouraging areas, adding jobs in each of the last four months. This was probably the result of rebuilding from Hurricane Sandy, unseasonably warm weather that led to fewer work stoppages and the nascent housing recovery, said Joshua Shapiro, chief United States economist at MFR.

Retailing, health care and the wholesale trade also added positions in January, while the government again shed jobs. Government payrolls shrank in most months over the last four years. The pullback in government spending, especially on the military, led to a slight contraction in fourth-quarter gross domestic product, reported on Wednesday. The decline in military spending was partly caused by uncertainty over the fiscal impasse, which eased temporarily with a compromise in Washington at the start of the year.

Friday’s employment report was “a reminder of the importance of the need for Congress to act to avoid self-inflicted wounds to the economy,” Alan B. Krueger, the chairman of President Obama’s Council of Economic Advisers, said in a statement. Republican leaders countered with attacks on Mr. Obama’s economic track record, with Representative Kevin Brady, the incoming chairman of the Joint Economic Committee, saying that “a run-in-place jobs report and unemployment stuck near 8 percent” is “Obama’s new normal.”

The revisions for the fourth quarter would seem to disprove accusations that the Obama administration inflated job growth ahead of the November election, since the original estimates were recalculated to show there was even more growth. The economy added 335,000 more jobs than originally estimated during all of 2012, including an additional 150,000 in the last quarter of the year. That was on top of the previously reported fourth-quarter job growth of 453,000 and 2012 growth of 1.8 million.

Still, hiring growth has been uninspiring in the last year, trudging along just barely fast enough to keep up with population growth but not nearly quickly

enough to put a major dent in unemployment. A backlog of 12.3 million idle workers remains. The average worker who is unemployed has been pounding the pavement for 35 weeks.

“I have been working for 40 years and I have looked for jobs many times in the past, including in bad economies, and I’ve never experienced anything like this,” said Mary Livingston, a human resources professional in Wayland, Mass. She was laid off two years ago on Friday.

She said she believed that employers were reluctant to hire her because of her age — she is 63 — and because she hadn’t held a permanent job in so long. But she said they also seemed unwilling to hire anyone.

“I’ve seen positions posted two years ago that still have not been filled,” she said. “There seems to be this tremendous fear of making a decision. A lot of my colleagues will go for 15, 20, 23 interviews with the same company.”

Uncertainty over fiscal policy and the fragility of the economy still seem to be holding back employers, despite a number of underlying sources of growth in places like the housing market and auto sales. Economists are forecasting job growth of around 170,000 a month for the rest of 2013, comparable to job growth over the last year.

Exactly what this pace of job growth means for the unemployment rate depends on whether many of the workers sitting on the sidelines decide to join, or rejoin, the labor force. Right now, labor force participation rates — that is, the share of people of working age who are working or looking for jobs — is 63.6 percent, close to a 30-year low.

Only those who are actively looking for work are counted as unemployed, so if labor force participation stays low, even modest job growth can cause the unemployment rate to fall quite a bit. It has come down several percentage points since peaking at 10 percent in October 2009.

“The decline in the unemployment rate really masks how protracted the crisis really is,” said Christine L. Owens, the executive director of the National Employment Law Project, a labor research and advocacy group. “It’s coming down largely for the wrong reason: because people are dropping out of the labor market or not entering it.” For the long-term unemployed — who now represent nearly 40 percent of all jobless workers — the opportunities still seem few and far between. Millions have exhausted their unemployment benefits, and many more will roll off the government’s system in the coming months with no options in sight.

“Who are these people who are getting jobs? Where are they? I don’t know them,” said Karen Duckett, 51, who was laid off from her job as director of

housekeeping at a retirement community in late 2011. She recently received a letter saying her benefits would end in two weeks because the unemployment rate in Maryland, where she lives, had fallen below 7 percent, so the state no longer qualified for the third tier of federal emergency benefits.

“I am just so angry right now,” said Ms. Duckett, who has been invited for only two job interviews despite submitting dozens of applications. “How do you expect for me to find a job in two weeks if I haven’t been able to find one in a year and a half?”

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