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U.S. economy adds jobs but braces for cuts

By Ylan Q. Mui - March 9, 2013

The U.S. economy is creating jobs faster than expected, a sign that the recovery is taking flight just as severe government spending cuts threaten to clip its wings.

Businesses added 236,000 workers in February, according to data from the Labor Department released Friday, exceeding even the most optimistic expectations. Many of the jobs were in construction, providing further evidence of healing in the housing market. The unemployment rate also fell to 7.7 percent — the lowest level since December 2008.

The surprising strength of the labor market suggests an economy at the crossroads: Has the recovery finally generated enough momentum to clear obstacles like the across-the-board spending cuts known as the sequester? Or are the cuts coming at precisely the wrong time, knocking the economy off track again?

Thanks to the “fiscal cliff” deal passed by Congress earlier this year, taxes have risen for all working Americans, eating into household budgets. The sequester’s spending cuts will indiscriminately ax $85 billion from the federal budget this year. Furloughs are slated to begin next month for thousands of government employees, on top of continued decline in public-sector employment in states and cities around the country. And lawmakers still must negotiate a compromise over spending to avert a federal shutdown.

Those headwinds could have thwarted the recovery already — as they did at the end of last year when economic growth came to a standstill. Instead, the jobs data are this year’s latest example of the private sector picking up steam.

Stock markets hit a record high this week. Home prices have surged by the most in six years. American households rebuilt much of the wealth lost during the recession, which in turn is helping to boost their spending.

“Washington’s antics will not derail the expansion,” **said Bernard Baumohl, chief global economist of the Economic Outlook Group.** “The perennial budget fights in Washington, while irksome to most Americans, have increasingly become background noise.”

In some respects, the resolution of the fiscal cliff and impending sequester actually could be viewed as helping the recovery: They help remove the uncertainty over taxes and government spending that businesses say have been clouding their decisions.

An index tracking that uncertainty, created by economists at Stanford and the University of Chicago, is at one of its lowest points since the recession ended. That means employers have the clearest picture in years of their economic environment, which should help them make critical decisions about staffing.

“The perceived unpredictability of policy may now be passing, with firms getting back to hiring and investment,” said Stanford economics professor Nicholas Bloom, one of the creators of the index. “My guess is this is the turning point of the five-year era of roller-coaster policy, with growth finally restarting.”

Friday’s jobs report was heralded for showing broad-based growth in the private sector. High-skilled professional jobs increased by 73,000, while the retail industry added 24,000 workers. Even Hollywood helped, boosting hiring in the information industry by 20,000.

Perhaps most significant was the growth of jobs in construction, one of the industries hardest hit by the recession. Employment in the sector rose 48,000 and has grown by three times that much since September.

“It’s an outstanding report,” said Craig Alexander, chief economist at TD Bank Group. “You very quickly run out of superlatives.”

Determining how much more robust job growth would be without tax increases earlier in the year and spending cuts in the spring is tricky. Most economists believe both are having some impact, but there is considerable debate over how significant it will be and how long it will last.

In February, the public sector shed 10,000 jobs, mostly in state governments.

The Congressional Budget Office has estimated that the sequester will cost 750,000 jobs.

“It’s too early to say we dodged a complete bullet here,” said Scott Anderson, chief economist at Bank of the West.

In addition, the jump in jobs may fall into the pattern that has emerged over the past two years: unexpectedly strong growth in the winter followed by a letdown in spring. Some economists have speculated that the swing is due in part to the way the report adjusts for seasonal variations in hiring.

Former Bureau of Labor Statistics commissioner Keith Hall said the average of January and February’s job gains provide a more accurate picture of the job market. That number is 178,000 — just below last year’s monthly average.

“We’re just sort of getting a continuation of modest job growth,” said Hall, now a senior research fellow at George Mason University’s Mercatus Center.

Even economists who have argued that the sequester’s impact will be limited are still urging caution. Douglas Holtz-Eakin, president of the American Action Forum, said businesses are also concerned about the size of the federal deficit and the costs of new health-care regulations.

And his caveat to strong February job growth is that it could be just that — strong in February.

“It’s just one month. It’s just one month. It’s just one month,” he said.

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