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Unemployment rate ticks up; 209K jobs added but less than expected

By Chris Fleisher
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A healthy jobs report on Friday confirmed that the economy is gaining momentum but gave pause to any sentiment that the Federal Reserve will raise interest rates sooner than expected after some bolder signs recently about the recovery.

Employers added 209,000 jobs in July, and the unemployment rate increased by a tenth of a percentage point to 6.2 percent, the first rise in six months, the federal Department of Labor reported.

The job gains were solid but not as robust as many economists expected.

With stagnant wage growth and sustained high levels of long-term unemployed people, however, Fed policy makers are likely to hold down interest rates for a while to spur lending and business investment, said **Bernard Baumohl, chief global economist of The Economic Outlook Group** in New Jersey.

“If the Federal Reserve was looking for any reason to advance the timing of raising the interest rates, they didn't find it in this report,” he said.

Still, there were signs on Friday that confidence is improving, as more people began looking for work and consumers become more optimistic about the economy.

A report that day from the Commerce Department said consumer spending rose in June, and a separate measure of consumer confidence, although down slightly in July, remained at levels signaling further gains in consumer spending. Consumers are critical to the recovery because they account for two-thirds of economic activity.

With the sixth straight month of job gains over 200,000, the report showed “solid” overall growth, said Gus Faucher, a PNC Financial Services Group economist. The rise in the unemployment rate was caused by more people resuming their search for work and being counted as unemployed.

“The uptick in the unemployment rate isn't anything to worry about,” Faucher said. “There are more people looking for work, more people feeling confident, and that can be viewed as a positive.”

The proportion of people working or looking for work, called the labor force participation rate, ticked up slightly to 62.9 percent after being stuck at 62.8 percent for the previous three months.

There were areas of concern, including the high number of long-term unemployed and stagnant wage growth.

Even though the unemployment rate has steadily declined from 7.3 percent a year ago, there are still many Americans struggling to find work. A broader measure of unemployment that considers part-time workers who would rather have full-time jobs, pegs the unemployment rate much higher, at 12.2 percent, up a tenth of a percentage point from June.

Dawn Davidson has been unemployed for nine months since being laid off at a loan processing company. The 51-year-old Fair Oaks resident has been searching online for any paying job, full- or part-time, to help cover expenses for her and her husband, a truck driver. Davidson said she sent out 20 resumes on Thursday.

“Anything is better (than being unemployed). I've even applied to a Sheetz as a cashier,” she said. “We have bills that need paid, and it's getting to the point where we're going to start struggling.”

The number of long-term unemployed increased 2.4 percent, or 74,000 in July. It is among the key indicators that the Federal Reserve is watching as it considers when to raise its benchmark short-term interest rate and how much to scale back its bond buying program, aimed at keeping long-term interest rates down.

After a two-day meeting this week, the Fed offered no clear indication of when it will raise the short-term rate, reiterating that it plans to keep it low “for a considerable time.” The Fed plans to end its monthly bond purchases by October, and PNC is forecasting that the short-term interest rate will stay near zero until October 2015.

The dollar dropped from the highest level in four months after Friday's jobs report, as investors took it as a sign the Federal Reserve may maintain lower rates for longer.

Fed Chairwoman Janet Yellen also has expressed concern about slow wage growth and the number of people working part-time who would rather have full-time jobs.

July saw a slight decline in people working part-time because they'd had their hours cut or could not find full employment. Still, at 7.5 million, the number of those workers remains historically high. When the recession began in December 2007, only 4.6 million people were working part-time for economic reasons.

Average hourly earnings increased a penny in July to $24.45 and have risen 48 cents in the past year, or 2 percent, barely keeping up with inflation. That indicates that employers haven't needed to raise wages to attract the best talent.

“Wage growth is still weak. What that does mean is that there is still a lot of slack in the labor market,” Faucher said. “That justifies what the Fed has been saying about slack in the labor market and that would give them ability to keep interest rates low.”

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