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U.S. Adds 113,000 Jobs; Unemployment at 6.6%

By Eric Morath and Neil Shah – February 7, 2014

A hiring chill hit the U.S. labor market for the second straight month in January, reflecting employers' reluctance to take on new workers despite some of the nation's strongest economic growth in years.

U.S. payrolls rose a seasonally adjusted 113,000 in January after December's lackluster gain of 75,000 jobs, marking the weakest two-month stretch of job creation in three years, the Labor Department said Friday.

Yet the unemployment rate ticked down to 6.6%--the lowest level since late 2008. The decline came because more people found jobs last month as opposed to last year when it fell in part because of unemployed Americans abandoning their job hunts and dropping out of the labor force.

The soft hiring numbers join a recent cavalcade of mixed economic data on exports, housing and manufacturing. These trends, coupled with worries about emerging markets, have unsettled investors and stoked doubts about a stronger global recovery.

The confounding performance, particularly the weaker payroll gains, comes after months of mounting enthusiasm among many businesses, consumers and investors about stronger expansion. It indicates growth in gross domestic product could be settling back near the 2% pace recorded for most of the recovery rather than the better-than-3% annualized gain in the second half of 2013.

"The economy got a little ahead of itself late last year," said Doug Handler, chief U.S. economist at IHS Global Insight. He said economic fundamentals generally remain strong, "but there are headwinds in the first quarter."

The report left several puzzles unanswered, including the dichotomy of solid growth and weak hiring. Throughout the recovery, businesses have been able to boost production at a faster pace than employment. That trend could also be supporting GDP growth despite the hiring slowdown.

DemeTech Corp., a Miami maker of surgical sutures and blades, is posting higher revenue but trimming payrolls. The firm is investing in technology that automates many functions, Chief Executive Luis Arguello said.

In the next two years, the firm will make as many of its products with machines "as robotics will allow," Mr. Arguello said. After cutting 20 jobs over the past year, the company now has about 75 workers.

Despite some mounting investor speculation Friday that helped stoke the stock market, the jobs report likely won't derail the Federal Reserve's pullback from the bond-buying program it has used to stimulate the economy. But more weak employment reports and persistently low inflation could intensify debate about the central bank's strategy on one of its key easy-money policies at its March meeting.

The central bank voted last month to reduce the pace of its monthly bond purchases by $10 billion, to $65 billion. The Fed's new leader, Janet Yellen, makes her first appearance before Congress as chairwoman next week for the Fed's semi-annual report to lawmakers. Fed officials have said they would need to see evidence of a deeper malaise on the labor market, rather than another temporary aberration, before adjusting their bond-buying plans.

Some of last year's stronger economic growth, which comforted some Fed officials, came from businesses building up inventories on their shelves rather than stronger sales. But firms already may have been slowing output--and hiring--in recent months to respond to a potential slowdown in consumer demand.

Investors largely shrugged off the disappointing report, with some counting on stronger hiring after the winter chill passes.

The Dow Jones Industrial Average recouped the last of the losses suffered in Monday's 2.1% decline. The index rose 165.55 points Friday, or 1%, to 15794. The gain gave the Dow its second-biggest daily advance this year, behind Thursday's 188-point gain. Traders said that despite the weak payrolls reading, stocks' sluggish start to this year--highlighted by a triple-digit decline for the Dow on Monday--left the market primed to rebound. The average is down 4.7% in 2014.

The hiring turbulence came amid a relatively tame couple of months in Washington. Lawmakers in coming weeks must hash out a new agreement to raise the federal borrowing limit, which had been suspended until Friday.

The latest data suggest weather may have slowed hiring in December, but not in January. A Labor Department analyst said last month's weather effects were consistent with other Januarys, a month that tends to be cold and snowy.

Payrolls in construction, an industry often hardest hit by frigid temperatures, grew by 48,000 last month after December's decrease of 22,000. The manufacturing

sector added 21,000 jobs last month. The construction and manufacturing sectors tend to pay higher wages than retail jobs, which declined by 13,000 last month.

The health-care sector added just 1,500 jobs in January after a gain of 1,100 jobs in December. The sector had supplied a steady stream of jobs for years, raising more questions about whether the rollout of the Affordable Care Act last fall is restraining hiring.

The health law has curbed hiring at Pita Pit USA Inc.'s 220 sandwich shops, said Peter Riggs, a vice president at the Coeur d'Alene, Idaho, firm. "We're not quite sure what the unintended consequences of the Affordable Care Act will be," he said. "We have an ongoing commitment to the people we've already hired, but we're more wary than in the past about hiring too many new people."

Whether the recent turbulence in the labor market is a blip or a sustained slowdown could take months to assess. The U.S. recovery, approaching the end of its fifth year, has featured several moments in which hiring appeared to slow for months before gaining ground again.

The gains ultimately evened out. In the past 12 months, firms added 2.2 million jobs to their payrolls. Twelve-month job growth has hovered between 2.1 million and 2.5 million for more than two years. Likewise, GDP has advanced in the 1.8%-to-2.8% range for four straight years.

To be sure, the report offered a few bright spots. In January, the size of America's labor force actually grew, by nearly 500,000 people, as more people got jobs and looked for work.

In addition, the ranks of the long-term unemployed--those out of work for six months or more--thinned, dropping to 3.6 million from 3.9 million. Some of that may have been partly due to more than 1.3 million Americans losing federal unemployment benefits in December; some of those workers may have given up their job search or taken jobs they otherwise wouldn't. The Senate failed to advance a renewal of those benefits this past week.

Long-term joblessness has dropped 1.1 million over the past year. "When people see the unemployment rate coming down on a consistent basis, it has a positive psychological impact," said **Bernard Baumohl, chief global economist for Economic Outlook Group LLC.** "I think it provides more security that the job market is improving."

Mr. Baumohl attributed the recent slowdown in job growth and the economy to transitory factors--such as bad weather and turmoil in emerging markets--rather than fundamental problems in the U.S.

Yet two of the nation's most intractable labor-market problems--long-term unemployment and falling participation in the labor force--remain severe from a historical perspective.

While participation in the labor force edged up in January, the share of Americans working or looking for work--63%--remains well below its level a year ago and near its lowest point in 35 years.

Linda Schultz, 61 years old, lost her $16-an-hour job at a nursing home a year ago and saw her extended unemployment benefits expire in December. The Toledo, Ohio, resident said she'd take a minimum-wage job to avoid missing mortgage payments on the home where she raises her two grandchildren.

"Every day, I'm online trying to apply anything available, but most of the time I don't even get an email back," said Ms. Schultz, who says she depleted her retirement account and is applying for food stamps. "I've worked all my life. I've never asked for anyone for anything."

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