Mixed U.S. jobs report dampens September rate hike bets

WASHINGTON, July 2 - U.S. job growth slowed in June and Americans left the labor force in droves, tempering expectations for a September interest rate hike from the Federal Reserve.

The Labor Department said on Thursday nonfarm payrolls rose 223,000 last month after a downwardly revised 254,000 increase in May, with construction and government employment unchanged, and the mining sector purging more jobs.

April payrolls were also lowered, meaning 60,000 fewer jobs were created during the two months than previously reported. The unemployment rate fell two-tenths of a percentage point to 5.3 percent, the lowest since April 2008, but that was a sign of weakness as 432,000 people dropped out of the labor force.

"While we've been seeing positive signs of the economy picking up moving into the second half, this report certainly isn't pushing the Fed to accelerate the liftoff timeline," said Ted Wieseman, an economist at Morgan Stanley in New York.

Still, June's payrolls increase ran well above the average for the first five months and the jobless rate is near the 5.0 percent to 5.2 percent range most Fed officials consider consistent with full employment.

Before the report, interest rate futures were pricing in a more than 50 percent chance of a December hike, but bets shifted to early 2016. Economists still believe the Fed, which has kept its short-term interest rate near zero since

December 2008, will tighten monetary policy this year.

The dollar fell marginally against a basket of currencies, while prices for U.S. Treasury debt ended higher. U.S. stocks closed little changed on festering worries over Greece's debt crisis.

From consumer spending to housing and consumer confidence, economic reports had taken a decisively strong tenor since May, prompting many forecasters to raise their second-quarter growth estimates to above a 3 percent annual pace.

CAUTION URGED

The economy contracted at a 0.2 percent rate in the January-March quarter. While the weak employment report raises the risk that growth will slow in the third quarter, economists cautioned against reading to much into the disappointing report as calendar and seasonal quirks could have influenced the data.

The labor force participation rate fell to 62.6 percent, the lowest since October 1977, from a four-month high of 62.9 percent in May.

"By far the biggest source of the increase in non-participants was people transitioning from employment to not in the labor force," said Michael Feroli, an economist at JPMorgan in New York. "Far fewer transitioned from unemployed to not in the labor force."

Economists had forecast nonfarm payrolls rising 230,000 last month and the unemployment rate dipping to 5.4 percent.

Average hourly earnings were unchanged as mining and manufacturing wages fell. However, manufacturing overtime touched a four-month high in June. Average hourly earnings increased 2.0 percent in the 12 months through June, decelerating from 2.3 percent in May.

Anecdotal evidence and other measures of wage growth suggest paychecks are getting fatter.

State and local governments have raised the minimum wage and surveys show entry-level wages for new college graduates are rising. In addition, Walmart, the nation's largest private employer, has announced wage increases twice this year.

Though construction payrolls were unchanged in June, construction spending hit a more than 6-1/2-year-high in May. Residential construction, building permits and new home sales are all at cycle highs.

"With housing showing so much forward momentum, we find it hard to accept that not a single net new person was hired in the construction industry," said **Bernard Baumohl, chief global economist at The Economic Outlook Group** in Princeton, New Jersey.

NOT ALL BAD

There were, however, some encouraging signs in the employment report. Though the participation rate tumbled last month, other labor market measures that Fed officials are eyeing as they contemplate raising interest rates for the first time since 2006 improved significantly.

A broad measure of joblessness that includes people who want to work but have given up searching and those working part-time because they cannot find full-time employment fell to 10.5 percent, the lowest since July 2008, from 10.8 percent in May.

The number of discouraged workers in June was the lowest since October 2008. In addition, the number of long-term unemployed continued to fall, touching its lowest level since late September 2008. Americans are also experiencing shorter spells of unemployment.

Last month, factory jobs increased 4,000, adding to a 7,000 gain in May. Retail payrolls rose a solid 32,900 and temporary help, a potential harbinger of future permanent hiring, increased 19,800 jobs, the most since December.

The mining sector, however, lost 3,000 more jobs because of layoffs in the energy industry. But the pace of declines is slowing. The sector shed 18,000 jobs in May.

Oil-field companies, including Schlumberger, Baker Hughes and Halliburton, have announced thousands of job cuts after a more than 60 percent plunge in crude oil prices last year.

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