MarketWatch

Why corporations are hiring even though U.S. growth stinks

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The official gauge of how fast the U.S. is growing has suffered a power outage of sorts but the economy is still generating lots of new jobs.

What the heck is going on?

It isn't hard to explain. When more people are working and they have cash in their pockets, they're confident enough to spend. That drives up sales and encourages companies to hire more workers.

That is exactly what' s going on. Consumer spending surged 4.2% in the second quarter, for instance, to match the second-fastest rate of a recovery that began in mid-2009. Investors are likely to get another reminder of the strength of consumers this week with the retail-sales report for July. Sales probably rose a solid 0.4% last month after a hefty gain in June.

A gradually improving labor market is the main propellant. The government last Friday said the economy added 255,000 jobs in July, the second-straight strong gain. The jobless rate held steady at 4.9% and layoffs remain near the lowest levels since the early 1970s. ""Steady reductions in unemployment and faster wage growth have led to an increase in consumer spending," said Jess Sharp, a senior executive at the American Bankers Association.

The strength of consumers has kept the economy moving ahead even though other key growth engines, exports, government spending and business investment, have sputtered.

The drag created by those parts of the economy limited gross domestic product to about 1% in the first half of 2016, about half as fast as the U.S. grew in 2015.

"Were it not for the active participation of the consumer, the country would now be facing a recession, since no other major sector of the economy is currently contributing to growth," said **Bernard Baumohl, chief global economist of The Economic Outlook Group.**

The willingness of companies to continue to hire might seem surprising in light of a squeeze on corporate profits and declining business investment. But that is because the corporate sector itself has divided into haves and have-nots.
The industries doing most of the hiring—banks, hospitals, retailers, restaurants, hotels, white-collar enterprises—are still growing at a strong pace. These service-oriented firms employment more than 80% of all Americans.

As a result, the economy has added an average of 186,000 jobs a month in 2016 and it's on track to create at least 2 million jobs for the sixth straight year. It is likely that the unemployment rate will fall even further from an already low 4.9%.

What's primarily made GDP look weak, despite all the hiring, has been a downturn in the energy business and sluggish sales among manufacturers, especially those that do lots of business overseas.

Energy producers have slashed investment and endured a steep drop in profits with oil prices still on the low side (another boon for consumers). Manufacturers are barely growing.

These are capital-intensive industries that account for a large share of business investment and profits. Their struggles have also seeped into the construction industry. Home builders are doing fine, but work on commercial projects has slowed.

"When an economy is really healthy, you get steady growth in manufacturing and construction," said J.J. Kinahan, chief strategist at TD Ameritrade. "It would be nice to get some steady growth in those two areas."

Put another way, consumers can't keep the economy afloat all by themselves. Sooner or later other engines of growth will have to kick in or the recovery could flag.

"We don't see consumers collapsing, but we don't see spending continuing to rise by 4.2%," said Dan North, chief economist, North America, at Euler Hermes. "It's still an uncertain economy."

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