

## U.S. economy blows away jobs expectations — and eases fears of a recession

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The U.S. economy blew away expectations for employment growth in January, adding 304,000 jobs amid the government shutdown and ongoing trade turmoil, and easing fears that a deep slowdown — or even a recession — is on its way.

January marked the 100th straight month of job gains, an unprecedented run that began in 2010. The shutdown did not appear to dampen private-sector hiring, but the unemployment rate crept up to 4 percent, the Labor Department said Friday, capturing the furloughed federal employees who temporarily stopped clocking in. Average hourly wages grew at an annual pace of 3.2 percent, with lower-wage workers seeing some of the biggest increases.

All told, the outlook for the U.S. economy has improved in recent days as the shutdown ended, President Trump sounded more eager to strike a permanent trade truce with China, and the Federal Reserve hit pause on further interest rate increases.

“It’s full speed ahead for the economy this year if today’s blockbuster report on new jobs is to be believed, and we think it is,” said Chris Rupkey, chief financial economist at MUFG Union Bank, in a note to clients. “U.S. companies have not let up one bit on their hiring in response to risks out there in the world economy, chiefly China and Europe, the Federal government shutdown, the economic war with China.”

Many on Wall Street were on edge heading into 2019, but those worries appear to have been alleviated by a trifecta of good news.

On Monday, about 800,000 federal workers began going back to work after Trump agreed to reopen the government without getting money for his proposed border wall. On Wednesday, Fed Chairman Jerome H. Powell said he and his team are in a “wait and see” mode on interest rate increases. And Thursday, Trump floated the idea of a new summit with China’s President Xi Jinping to bring an end to the trade war.

Investors cheered these developments, propelling the S&P 500 stock index to its best January performance since 1987. The gains go a long way toward reversing the steep sell-off that began in early December, when Trump dubbed himself “a Tariff Man” and sounded ready for more trade fights. Last year ended with the worst December for stocks since 1931.

While the Chinese and European economies have shown clear signs of duress in recent weeks, the United States has remained a bright spot with strong hiring, decent wage growth, a rebounding stock market and a slight uptick in manufacturing sentiment.

The White House heralded the job news as evidence that the shutdown had limited economic impact and that the president’s agenda of tax cuts and regulatory rollback is working.

Trump tweeted, “Jobs, Jobs, Jobs!,” and his top economic adviser, Larry Kudlow, went on television proclaiming, “The USA is the hottest economy in the world.”

Other economists countered that the 100-month run of job gains began under President Barack Obama and shows the resilience of the economy despite political chaos at home and abroad.

“The economy’s got so much momentum that it’s just shrugging off all these other issues,” said Josh Wright, chief economist at iCIMS, a hiring-software firm.

Most economists, including the Fed, continue to predict that U.S. economic growth will slow this year to a still-solid 2.3 percent, down from 3 percent last year, as the fiscal stimulus from the tax cuts and extra government spending on the military and domestic programs fades.

Weaker growth abroad could drag down U.S. growth, although those worries subsided somewhat after the Chinese government announced a massive tax cut and stimulus program.

“The U.S. economy is undoubtedly slowing, but from a really high level,” said Megan Greene, chief economist at Manulife Asset Management. “The rest of the world is slowing down, but I think China will probably manage to stabilize its economy and see growth accelerate, which will give the rest of us some reprieve.”

Some think growth will decelerate faster than expected because it’s easier to derail a slowing economy. “Storm clouds can darken quickly that totally change the outlook,” said Joseph LaVorgna, chief Americas economist at Natixis, a corporate investment bank. “Three percent growth is hard to do this year when you have the lift from the tax cuts fading.”

But others, including the White House, predict that many of the crosscurrents with trade and the Fed will abate and that businesses and consumers will continue to spend. “We are on the right track. The tax cuts and deregulation are working,” said Kudlow, who predicts 3 percent growth this year. “I don’t know why people are so pessimistic. The data keep coming in stronger than people expect.”

The U.S. economy is driven primarily by consumers, who continue to open their wallets to spend on products and services from yoga to vacations to beer.

The University of Michigan's latest consumer survey, also released Friday, showed sentiment at its lowest level since Trump was elected, largely because of the shutdown. Consumers give the current economy high marks, but they are a lot less certain about the outlook in the coming months, a potential red flag. Consumer sentiment depends largely on what happens in the job market, which is why economists, investors and government leaders watch the monthly jobs report so closely.

Leisure and hospitality, health care, construction, and transportation and warehousing all saw strong gains. The economy added 660,000 blue-collar jobs in the past year, the best annual gain for such jobs since the financial crisis.

But some economists cautioned not to celebrate too much over a January hiring figure of more than 300,000. The Labor Department initially said December hiring was over that threshold as well, only to revise it sharply down, saying Friday that 220,000 jobs were added in December. "I fully expect January's numbers to be revised down, as was the case with December," said **Bernard Baumohl, chief global economist at the Economic Outlook Group**. "I wouldn't get all that excited that it was over 300,000."

Even with the downward revisions, the three-month average for job gains — 241,000 — is the fastest pace in several years and surprisingly strong at a time when unemployment is already low and the economy has been growing for nearly a decade.

In the coming months, experts will watch a few red flags in the report to see if they were temporary oddities from the shutdown or more lasting trends.

The number of people who said they were employed part-time for economic reasons spiked by 490,000 to 5.15 million — 11 percent higher than December's figures. The Labor Department said this might reflect furloughed workers trying to pick up other jobs, but it's difficult to know for sure, and this metric has been trending up in recent months.

"Contractors and people doing work related to the government didn't get paid during the time period and had to find other work," said Becky Frankiewicz, president of ManpowerGroup North America.

Michael Walter, a food inspector for the U.S. Agriculture Department in Johnstown, Pa., is one of those workers who did what he could to earn money during the shutdown, picking up Uber shifts on Friday and Saturday nights to cover his bills during his 35-day furlough. Behind the wheel of his 2007 Chevrolet Suburban, he made about \$1,500.

"I missed my kids but knew the money would keep our family ahead till I started getting paid again," he said.

The part-time work proved so lucrative, Walter said, that he intends to keep it up.

He's worried the government could shut down again if Trump and congressional Democrats can't finalize a deal by Feb. 15 — a reminder that uncertainty remains.

“If the standoff continues into late February, it could foster sustained declines in economic optimism among consumers,” wrote Richard Curtin, chief economist for the University of Michigan consumer survey. “Even small spending cutbacks, occurring simultaneously across the majority of consumers, could push the economy into a recessionary downturn.”

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