

Hiring cooled in August, the latest in a long line of data indicating Trump's trade war is starting to bite

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By Heather Long

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Hiring cooled in August, the latest in a long line of data released this summer that indicates President Trump's trade war is starting to bite into an economy that could be on the verge of entering a rough patch.

The U.S. economy added 130,000 jobs in August, the Labor Department said Friday, below expectations of 160,000 job gains. The numbers were padded in part because the government hired a large number of temporary workers for the 2020 Census.

The hiring slowdown comes as broader economic growth has softened this year. The manufacturing sector is in a recession, and businesses have curtailed spending, largely as a result of headwinds from abroad and Trump's trade policy whiplash.

This is a "murky" time for the economy with "significant risks," Federal Reserve Chair Jerome H. Powell said Friday during remarks in Switzerland.

Trump tweeted that the Fed and the media are to blame for the uncertainty that is causing business leaders to slow spending, but executives point to the rounds of tariffs imposed by the White House as the major problem. Forty-three percent of Fortune 500 leaders have spoken out about trade uncertainty since June 1, according to the U.S. Chamber of Commerce.

The U.S. economy is driven primarily by consumer spending, and so far that remains strong as workers continue to get pay raises and don't see much reason to worry about losing their jobs. But the pace of job creation has slowed this year.

The unemployment rate remained at 3.7 percent in August, the lowest in nearly half a century. Business leaders complain frequently that they can't find enough workers to fill open jobs, and people are being lured off their couches

or out of school and into the workforce at record rates. “We’re hiring” signs are plentiful in many parts of the country

But in a sign economic forces have begun to change, most companies have already scaled back spending on buildings and equipment, and there is concern that they will now cease hiring, a move that could have harmful consequences because consumer spending drives so much of the U.S. economy. When Americans are fearful of losing their jobs, they tend to cut back on purchases.

So far this year, job gains have averaged 143,000 a month, a noticeable downgrade from last year, when job gains averaged 192,000 a month, according to Lakshman Achuthan, co-founder of the Economic Cycle Research Institute.

“While I’m not concerned about a downturn lurking just around the corner today, it remains a very real possibility further down the line,” said Steve Rick, chief economist at CUNA Mutual Group, in an email.

Trump has pinned his reelection on a strong economy in 2020. White House officials have moved aggressively in recent days to highlight good economic news and say the U.S.-China trade talks are going well, even though substantive progress has not occurred.

Despite the White House’s efforts to tout good news, many business executives remain on edge. Private sector companies only added 96,000 jobs in August, one of the weakest gains in the past few years.

Right now, the United States is a tale of two economies. The service sector remains relatively strong, driven by consumer spending. Health care and businesses continued to add a lot of jobs in August. But industries such as mining, manufacturing, retail and trucking that are more closely tied to selling items overseas are struggling. Mining employment fell by 6,000 jobs and trucking by 4,500. Manufacturing hiring has also cooled this year, a trend that continued last month.

“The epic political failure to resolve this 18-month long trade dispute and the threat of yet another tariff battle erupting with Europe, India, Vietnam and others – all act as a massive foot on the neck of the US economy,” said **Bernard Baumohl, chief global economist at The Economic Outlook Group.** “This foot has already starved the U.S. manufacturing sector of oxygen, causing production and new orders to plummet.”

But Powell pointed out Friday that manufacturing is a relatively small part of the U.S. economy today. It slipped into a recession back in 2015 and early 2016 while the rest of the economy continued to grow, a scenario that may be playing out again.

Powell said he expects the overall economy to keep growing at a solid clip, avoiding a recession.

“We’re not forecasting or expecting a recession,” Powell said. “The most likely outlook for our economy remains a favorable one with moderate growth, a strong labor market and moderate inflation.”

Economists largely agree that the U.S. economy is slowing this year from near 3 percent growth last year to about 2 percent growth this year. Whether the economy nose-dives from there depends on what happens with hiring and consumer spending.

“The prevailing wisdom is the consumer will ‘save the day,’ but jobs growth and overall growth is decelerating and that looks like it will continue,” said Achuthan. “Everything is not stable.”

Consumer confidence has pulled back slightly but is not a red flag yet. Still, there are signs Americans are paying close attention to what is happening in the economy. Google searches for “recession 2019” have spiked to levels not seen since 2008 when stock markets tanked and the economy was in the midst of the Great Recession.

While Americans appear to be concerned, they have yet to pull back on spending to the degree that businesses have.

The job market still looks strong with more job openings than unemployed people. Wages grew at an annual pace of 3.2 percent in August, well above inflation and a slightly better-than-expected pace. The number of hours that U.S. employees are working also rose, typically a sign that companies are asking workers to stay later.

The U.S. economy has been growing for more than a decade now, and the gains appear to be reaching more people. The African American unemployment rate fell to an all-time low of 5.5 percent in August, and the labor force participation rate edged up to 63.2 percent, one of the highest rates in recent years as more people are finding jobs.

Larry Kudlow, Trump’s top economic adviser, called it a “very solid” number of job gains in various TV appearances, stressing that he is encouraged by strong wage growth.

But Democrats on Friday assailed parts of the new data, alleging that uncertainty about the ongoing trade war had caused companies to seize up and postpone hiring decisions.

Trump announced in August that he would put tariffs on nearly all Chinese imports by the end of the year, a major escalation of the trade war that has left many retailers and manufacturers trying to figure out what to do ahead of the big holiday shopping season.

Big retailers, including Macy’s, Best Buy and Home Depot, have warned that prices may rise in their stores and earnings may slip as the tariffs take effect on such a wide variety of popular items.

White House officials stressed Friday that top U.S. and Chinese negotiators are set to meet in October to discuss a possible trade deal. Trump and his advisers said the economy would be a lot better off if the Fed would cut interest rates at its upcoming meeting set for September 18.

“I agree with @jimcramer, the Fed should lower rates. They were WAY too early to raise, and Way too late to cut - and big dose quantitative tightening didn't exactly help either. Where did I find this guy Jerome? Oh well, you can't win them all!” Trump tweeted, referring to Powell, who Trump hand-picked in 2017 for the top job at the central bank.

The president has tweeted more than 30 times since Aug. 1 that the Fed should cut interest rates aggressively, a move that typically happens when the U.S. economy is on the verge of a recession. The central bank is expected to do a modest interest rate cut this month, well short of the action Trump wants.

Trump tweeted later on Friday that “The Economy is great. The only thing adding to ‘uncertainty’ is the Fake News!”

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