U.S. private hiring soars; seasonal issues cloud gain

By Steven C. Johnson
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NEW YORK - The U.S. jobs recovery gathered pace as a measure of private-sector hiring surged in December and claims for unemployment benefits fell, suggesting the battered labor market may continue to strengthen in 2012.

The ADP National Employment Report's December job tally of 325,000 surprised economists who had expected a gain of roughly half that size. It was also above the 204,000 private jobs added in November.

Many economists struck a note of caution, though, saying the number may have been distorted by seasonal factors.

Joel Prakken, of Macroeconomic Advisers, which helps produce the survey, told reporters job readings tend to be inflated at year-end as employers keep workers on payrolls for accounting reasons, and the reading could be revised lower.

"Certainly we're getting some more encouraging news on the jobs market, but we have to be very aware that it does reflect a very volatile period of the year -- the holiday season and the days following the new year," said **Bernard Baumohl, chief global economist at Economic Outlook Group** in Princeton, New Jersey.

Markets did indeed appear to take the data with a grain of salt. U.S. stock indexes were lower while safe-haven U.S. government bond prices edged up, keeping the benchmark 10-year yield below 2 percent.

In December 2010, a surge in private sector hiring far exceeded the total monthly job gain reported by the government.

The more comprehensive government payrolls monthly report, due Friday, is expected to show the economy added 150,000 public and private sector jobs in December, according to a Reuters survey conducted earlier this week.

FIRST-TIME JOBLESS CLAIMS DIP

Even so, data on Thursday confirmed some encouraging trends.

The Labor Department reported the number of Americans filing first-time claims for unemployment benefits fell by 15,000 last week, the fourth decline in the last five weeks. The four-week moving average, considered a better measure of trends, fell to its lowest level since June 2008.

"The message from the four-week averages is that the labor market is maintaining its recent improvement," said Gennadiy Goldberg, interest rate strategist at 4-Cast, Inc in New York.

There were also signs of improvement in hiring within the vast U.S. services sector. The employment component of the Institute for Supply Management's services index rose to 49.4 from 48.9 in November, though "that wasn't as strong as the ADP report....so there are a few mixed messages on employment," said Julia Coronado, chief economist for North America at BNP Paribas in New York.

A private industry survey showed the number of planned layoffs at U.S. firms fell to a five-month low in November.

But John Challenger, chief executive officer of consultants Challenger, Gray & Christmas, said the two sectors that suffered the most job cuts in 2011 -- government and financial services -- look destined to struggle again this year.

RISKS REMAIN FOR ECONOMY IN 2012

The unemployment rate is expected to have edged up to 8.7 percent last month, from 8.6 percent in November, as some Americans who had given up their search for work were lured back into the market, according to a Reuters survey.

While recent data suggests the U.S. economy expanded more swiftly in the final three months of 2011 after growing at a 1.8 percent pace between July and September, few economists expect that pace to persist through 2012. Most have penciled in a gradual growth rate of around 2 percent for the year.

That may prove too optimistic if Europe falls into a deep recession as countries there slash spending to battle a debt crisis or if Chinese growth continues to slow.

Baumohl said a significant downturn in Europe could threaten U.S. exports and U.S. banks while shaving up to one percentage point off 2012 growth.

"The market believes the numbers do not yet reflect the impact of much lower growth in Europe and the slowdown in Asia," said Cary Leahey, senior economist at Decision Economics. "The problem is the market doesn't really believe the positive trend will last." The Federal Reserve, which will hold its first policy meeting of 2012 later this month, has pledged to hold interest rates at zero until at least mid-2013.

And a survey of Wall Street firms that deal with the Fed showed primary dealers saw a 45 percent chance the central bank will wait until mid-2014 before it raises rates. Ian Shepherdson, chief U.S. economist at High Frequency Economics, said persistent improvement in the labor market may complicate things.

"The big danger now is that the rate of improvement in labor market conditions will be much faster than the Fed expects, forcing (it) to re-evaluate medium-term inflation risks this year rather than in 2013," he wrote in a note to clients.

(Additional reporting by Ryan Vlastelica, Richard Leong, Ellen Freilich; Editing by Leslie Adler)