Scant Job Growth Forces Jobless To Stop Looking Despite Recovery

By JON E. HILSENRATH
Staff Reporter of THE WALL STREET JOURNAL

The U.S. jobless rate fell to a 14-month low in December, but for all the wrong reasons.

The Labor Department reported the unemployment rate fell to 5.7%, its lowest level since October 2002. But the decline wasn't the result of a surge in new hiring, as many economists had expected. Instead, it occurred because the labor force itself contracted as thousands of potential workers stopped looking for jobs and effectively stopped being counted as unemployed.

The development points to a puzzling trend in the U.S. job market: More than two years into a recovery that many economists believe has accelerated in recent months, workers still are leaving the labor force. "Job creation has stalled," said David Autor, a labor-market economist with Massachusetts Institute of Technology, Cambridge, Mass. "People respond to that by leaving the labor force."

The employment report also showed that nonfarm businesses added just 1,000 new jobs on a seasonally adjusted basis, a statistically insignificant change in a nation with more than 130 million payroll jobs. The tiny increase, combined with downward revisions to estimates for job growth in October and November, came as a big surprise to economists. They had been watching a wide range of other indicators of an improving economy and predicting that payrolls would rise by 150,000 in December and by similar amounts in the months ahead. "I was totally wrong," said John Silvia, chief economist with Wachovia Securities in Charlotte, North Carolina. "We're getting tons of [economic growth] but we're not getting the jobs associated with it."
The main offshoot of rising economic growth with few new jobs has been surging productivity among workers who still have jobs, a trend that seems to have continued in the fourth quarter and probably indicates improving corporate profits.

It is possible that job-market weakness will reverse itself in January. Some economists noted that some of the weakness recorded in the December report could be a statistical quirk. Several of the industries that reported a contraction in employment -- such as retailing, warehousing or postal services -- are seasonal industries that tend to do a lot of hiring around the Christmas holiday. If there was less seasonal hiring in these industries in December, it could mean there will be fewer seasonal layoffs in the same industries in January.

Seasonal variation wasn't the only factor. Employment also dropped in manufacturing, finance and state government. Even officials within President Bush's administration, eager to highlight an improving economy, offered a sobering view of job-market trends. "The labor market has really only just turned the corner," said N. Gregory Mankiw, chairman of President Bush's Council of Economic Advisers. "We still have a long way to go to get Americans back to work."

For now, many economists are holding to their projections of an improving U.S. economy in the months ahead. Most surveys of business confidence seem to suggest that executives are becoming more optimistic about the economic outlook and have increased plans for investment and hiring.

In a Wall Street Journal survey of economists in December, the consensus projected that the economy would expand more than 4% in 2004, enough to create a sustainable upturn in jobs. Yet after months of bad job-market news, MIT's Mr. Autor said, "people are discouraged."

**Write to Jon E. Hilsenrath at jon.hilsenrath@wsj.com**

**URL for this article:**
http://online.wsj.com/article/0,,SB107365489029582200,00.html

**Hyperlinks in this Article:**
(1) http://online.wsj.com/article/0,,SB107387477261601700,00.html
(2) javascript:window.open('http://online.wsj.com/documents/info-pol03-frameset.html?editionIndex=1';'pol03','toolbar=no,location=no,scrollbars=no,width=780,height=510,left=0,top=30');void('');
(3) http://online.wsj.com/article/0,,SB107365880350438100,00.html
(4) http://online.wsj.com/documents/bbemp-20040109.htm
(5) http://online.wsj.com/documents/bcom-fuecemploy.htm
(6) javascript: window.open("http://online.wsj.com/public/resources/documents/info-fore1203_frameset.html","fore1203","toolbar=no,scrollbars=no,location=no,width=750,height=510,left=20,top=30");void('');
(7) javascript: window.open("http://online.wsj.com/public/resources/documents/info-fore1203_frameset.html","fore1203","toolbar=no,scrollbars=no,location=no,width=750,height=510,left=20,top=30");void('');
(8) mailto:jon.hilsenrath@wsj.com

**Updated January 12, 2004**