

Unemployment drops to 8.3 percent on better-than-expected jobs report

By Kevin G. Hall, February 3, 2012

Employers added a better-than-expected 243,000 non-farm payroll jobs in January and the unemployment rate fell to 8.3 percent, the government said Friday in a monthly report that put an exclamation point on bettering economic indicators.

In a January that didn't feel like winter, the job numbers for the month also were hotter than expected. Private-sector employers actually added 257,000 jobs in January but the overall number was dragged down by the 14,000 lost government-sector jobs.

Most encouraging in the report from the Bureau of Labor Statistics was broad nature of the job gains. The manufacturing sector added 50,000 posts and the category of professional and business services — many of the better paying white-collar jobs — posted the largest gain with 70,000 new jobs.

Even the hard-hit construction sector got in on the action, adding another 21,000 jobs.

“It is a fantastic jobs report, not a single blemish,” said Mark Zandi, chief economist with Moody's Analytics. “Jobs were up big, and unemployment was down big. All the leading indicators in the report suggest continued solid job growth at least into the spring.”

The solid numbers could be a sign that the U.S. economic recovery is readying to shift into higher gear. Over the past three months, employers have averaged job creation above 200,000 and this mirrors strong data on manufacturing, car sales and improving consumer sentiment.

Adding weight to that view, new data Friday showed that December factory orders were up modestly and a closely watched index of non-manufacturing activity in the economy shot up 3.8 percentage points.

The unemployment rate fell another two-tenths of a percentage point to 8.3 percent Friday, defying expectations that it would rise as more workers returned to the labor force and looked for jobs. That number has come down from above 9 percent last summer as fear grew that Europe's debt problems could send the U.S. economy back into recession.

The size of the workforce shrank by about 1.2 million workers in January, which may have helped the unemployment number fall. However, the Labor Department began using new adjusted numbers to calculate workforce size, so some economists questioned the falling jobless rate.

The head of the White House Council of Economic Adviser, Alan Krueger, used his blog on Friday to shoot down debate over labor force participation rates.

“The drop in unemployment over the month was entirely due to employment growth, as the labor force participation rate remained constant, once new population weights are taken into account,” Krueger wrote. “The unemployment rate has fallen by 0.8 percentage point in the last 12 months.”

If the hiring numbers stay strong in coming months, it would confirm that Europe's debt woes are having less of an impact on the U.S. economy than economists thought and may force a rethink of sluggish U.S. growth projected for the first half of 2012.

"We believe that consensus expectations for growth are understating the rising momentum in the economy," wrote economists for forecaster RDQ Economics in New York, in a note to investors on Friday.

Some economists worried that weather factors were at play. In a note to investors, Steve Ricchiuto, chief economist of Mizuho Securities, said sharp weather swings late last year and in January have skewed the numbers and this will show up a few months down the road.

"The (unemployment) claims data does, however, suggest that payrolls should be growing by 175 K instead of last year's 125 K," he said, suggesting the economy isn't growing fast enough to keep adding jobs at January's blistering pace.

Whatever the pace, the trend is clearly improving and importantly across all sectors. Manufacturers welcomed the 50,000 new jobs, 82,000 over the past two months.

"Overall, these numbers show renewed strength in the domestic economy, with employment growth in almost every major industrial sector except information, financial services and government. It mirrors other recent economic indicators showing an uptick in activity since October," Chad Moutray, chief economist with the National Association of Manufacturers, wrote in his blog Shopfloor.org. "Moreover, several sentiment surveys suggest that manufacturers are optimistic about future production and employment in 2012, which should bode well for this year's numbers."

The upbeat view was shared by Brian Hamilton, CEO of Sageworks, a company that compiles economic data about privately held companies. These companies, he said, have shown 18 months of revenue and profit growth.

"As the length of time increases over which their revenues grow, they will begin to hire. This has been historically true and ... we expect this to be true in the future. The past several recent jobs reports seem to indicate that private companies are beginning to look toward the future and consider hiring," Hamilton said.

For the full story featuring Sageworks' CEO Brian Hamilton, please visit [McClatchy - Unemployment drops to 8.3 percent on better-than-expected jobs report](#).