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July jobs report renews concerns over a stalled recovery

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The nation's economic recovery continued to sputter in July as employers kept shedding jobs and 181,000 discouraged workers dropped out of the labor force, according to a government report released Friday.

The nation's unemployment rate remained at 9.5 percent for the month, the Labor Department said, as private employers added a modest 71,000 jobs. But that increase was overwhelmed by the loss of 202,000 government jobs, including 143,000 temporary census positions.

In all, employers cut 131,000 jobs, adding to mounting concern among policymakers and analysts that the recovery needs to pick up momentum or risk stalling.

"The road ahead is uncertain, but what is crystal clear is that if we don't see significant job growth by the end of the year, the economy could be in serious trouble," said Bill Cheney, chief economist for John Hancock Financial.

The grim jobs report, and a Goldman Sachs downgrade of estimated 2011 economic growth also issued Friday morning, hammered stocks in early trading, sending the Dow Jones industrial average on a triple-digit plunge. An afternoon rally pulled stocks back up to nearly even on the day.

The jobs report added fuel to the economic debate leading into congressional elections this fall. It also raised questions about what else government can do to stoke hiring.

Although many large firms have returned to profitability since the worst of the downturn, they have not seen the need to add significant numbers of employees. Many firms are getting by with their current workforces; they do not foresee a big uptick in demand as consumers cut back and try to rebuild their wealth, which was significantly diminished by the recession. Meanwhile, new engines of economic growth have yet to emerge.

At the same time, consumer spending, about 70 percent of U.S. gross domestic product, is tepid. Government data released Friday showed that consumer credit dropped for the fifth straight month in June, with Americans choosing to save their income or use it to pay down debt.

"We used stimulus in order to stop a slide toward depression, and it was successful in doing that. But it wasn't enough to create strong growth," said Robert J. Shapiro, chairman of Sonecon, an economic consultancy.

He added: "The problem we face now is a hard one, because not only do we have all the things that are holding down the demand coming out of the financial crisis, in addition in the last expansion business was creating jobs at much lower rates than it did in the 1980s and 1990s. The question is: What can government do now, given that?"

Members of the Federal Reserve's policymaking committee have expressed reluctance to taking new steps to encourage growth, given that the Fed's interest rate target is already near zero. But the jobs report could increase pressure on the committee to further support growth by pledging to keep interest rates low for even longer than now expected, cutting the interest rate on banks' reserves, or buying additional mortgage securities.

Congress managed to revive long-term unemployment benefits last month, and the House is scheduled to return next week to give final approval to a $26 billion aid bill aimed at helping state governments pay for Medicaid and keep teachers in classrooms.

But there appears to be little appetite for more stimulus spending on Capitol Hill. Most Republicans have vowed to block such measures, and even some Democrats have expressed concerns about the mounting deficit and debt.

Obama administration officials, although acknowledging that unemployment will probably hover near current levels for months, are pushing for passage of long-stalled measures aimed at boosting small business and giving tax breaks to homeowners who make their homes more energy-efficient.

Republicans said the new jobs report offered fresh evidence of the failure of President Obama's economic policies, which they say have relied on a level of government intervention in the economy that has left businesses skittish about new investment.

"There is so much uncertainty connected with the agenda and the bills being passed in Washington," said House Republican Whip Eric Cantor (Va.). " . . . That matters a great deal when one is thinking about committing capital and hiring folks."

Obama, meanwhile, focused on the positive. Speaking at Gelberg Signs, a small business in the District that is hiring new workers, he said, "We've now added private-sector jobs every month this year, instead of losing them as we did for the first seven months of last year, and that's a good sign."

He added that the U.S. manufacturing sector, which had been hit hard by the recession he inherited when he assumed office in January 2009, has added 183,000 jobs this year.

"That's the most robust seven months of manufacturing growth in over a decade," Obama said.

But the modest manufacturing growth has returned just 10 percent of the manufacturing jobs destroyed during the downturn and is tied mostly to the rebounding automobile industry.

"In the spring, the momentum of the recovery was looking strong. But now it has slowed," said Tig Gilliam, chief executive of Adecco Group North America, a temporary-employment firm. "That has led to some psychological adjustment for company hiring managers. They say, 'This recovery may not be as fast as they thought, so let's hold off.' "

As many government stimulus efforts wind down, and with cash-strapped state and local governments expected to accelerate job cuts in the coming months, analysts increasingly say that, at best, the economy faces a long road to full recovery. At worst, they worry, it could tip back into recession.

The nation has added 654,000 jobs this year, including 630,000 in the private sector, but those increases have not kept pace with the 125,000 new jobs a month normally needed to keep the unemployment rate stable. The unemployment rate would also be higher were it not for the 1.2 million workers who walked away from the labor force in the past three months, unable to find work.

As a result, the official unemployment rate understates the severity of the jobs crisis. The underemployment rate, which includes the officially unemployed, those who left the job market, and people who want to work full time but are forced to work part time, is 16.5 percent.

The nation needs to create about 11 million jobs to return to the levels of unemployment that prevailed before the recession hit. But, analysts worry, there are no signs that such robust growth is on the horizon.

Staff writers Brady Dennis and William Branigin contributed to this report.

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