



# Employment Shows Growth but Uncertainty Still Lingers

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**WASHINGTON** — Don't breath easy just yet.

Even as there are signs U.S. unemployment is beginning to decline, analysts and economists warn the American economy still faces a long upward slog in 2012 — indicating the nation's retailers are likely to experience a bumpy road similar to the one they saw in 2011.

The pace of economic recovery will remain slow, with more upside in the back half of the new year than during the first half and headwinds ranging from U.S. consumer confidence to the European debt crisis. And that's not even factoring in the potential of skyrocketing oil prices if Iran blocks the Straits of Hormuz, the impact of the presidential election campaign, Congressional gridlock and any other negative event that could crop up.

Rajeev Dhawan, director of the economic forecasting center at Georgia State University, said he expects 2012 to start out slowly because of the financial crisis in Europe, followed by uncertainty around the U.S. presidential campaign in the summer, and finally an improvement in the fall.

He expects employment to rise by about 120,000 a month, compared with an annual average last year of 136,000 a month.

“The issue is we need employment growth of 200,000 a month to really make a difference in people's lives,” Dhawan said. “To get to that number, we have to make sure that Europe does not blow up [with a recession], that oil prices remain below \$100 a barrel, that Congress passes a one-year payroll tax extension and that China has a soft economic landing.”

According to the U.S. Labor Department, the economy added 200,000 jobs in December, cutting the overall unemployment rate to 8.5 percent from a revised 8.7 percent in November. Expectations of a strong holiday season contributed to an upswing in retail jobs. Apparel and accessories stores added a seasonally adjusted 11,100 jobs to employ 1.48 million in December compared with November, while department stores added 3,700 jobs to employ 1.5 million last month. General merchandise stores, which include department stores, boosted payrolls by 13,000 to employ 3 million in December.

“Clearly, [Friday's] overall report was positive,” said Scott Hoyt, senior director of

consumer economics at Moody's Analytics. "It was nice to see 200,000 total job gains....but we still have a relatively high unemployment rate."

Hoyt, and others, pointed to numerous trouble spots remaining in the U.S. economy.

"Wealth is still significantly below pre-recession peaks. Credit availability is obviously far from what it was prior to the recession and housing prices are still declining," Hoyt said. "We have concerns about the fallout from the recession developing in Europe and some of the domestic fiscal stimulus programs ending. There are still a lot of impediments out there to keep growth from getting really robust in the near term."

Moody's is forecasting economic growth for the year of 2.5 percent compared with the estimated 1.8 percent growth of 2011.

"We do think growth will again be backloaded towards the second half of the year with drags from the recession in Europe and the expiration of some fiscal stimulus and probably more severe state and local budget cuts earlier in the year," Hoyt said.

He noted the decline in the unemployment rate is a "little misleading" because of the large numbers of people who have given up looking for work and therefore not counted in the unemployment rate. That metric includes about 13.1 million people who are out of work in the U.S., but not the 2.5 million unemployed people who have not looked for a job in the past four weeks.

Add those who've given up on job searches and the total number of unemployed people stood at 15.6 million in December, and the unemployment rate at 10 percent, according to Nigel Gault, chief U.S. economist at IHS Global Insight.

The unemployment rate among those 16 to 19 years old improved in 2011, albeit slowly, descending to 23.1 percent in December from 25.2 percent a year earlier. For males 20 and older, the rate stood at 8 percent, versus 9.4 percent a year ago and, for their female counterparts, it slipped to 7.9 percent last month from 8.1 percent in December 2010.

"Clearly in the month of December, those people were benefitting from employment and getting more spending power," Gault said. "But what we want to see is whether those jobs will remain after the holidays."

There are reasons to suspect that it might not do so. The 200,000 headline employment number last month was inflated by a jump of 42,000 in employment in the "couriers and messengers" category, which includes holiday hires at FedEx and UPS, he added.

"It seems that the seasonal adjustment has not caught up with the increased importance of e-commerce during the holiday season," Gault said. "In the two most recent holiday seasons, jobs at 'couriers and messengers' rose an average of 38,000 in December but dropped an average of 45,000 in January. We expect a similar correction this January."

IHS expects employment growth to average about 150,000 jobs a month over the course

of 2012, with consumer spending expanding about 2.2 percent, roughly the same level as last year.

“In a really strong recovery, we would look for the numbers to be in the 3 to 4 percent range,’ Gault said. “But I think consumer spending will allow retail hiring to continue to improve and increase.”

There are limits to his optimism about the retail sector, however. “I don’t see conditions there that will allow margins to be dramatically boosted in the retail sector,” Gault said.

Consumer confidence is not expected to rise much this year but some economists believe the gradual increase in hiring and employment growth could boost attitudes.

“Consumer demand ultimately is being driven by what kind of paycheck they are bringing home,” Dhawan said. “Right now the mood is lousy because of home prices and the stock market basically is gyrated quite a bit. That doesn’t build up confidence.”

Andrew Fitzpatrick, director of investments at Hinsdale Associates, said the good employment news is pushing consumer attitudes in “the right direction.”

“I think that we won’t be hit by as many negative data points this year and that will brighten the mood here to some degree, although it will be nowhere near as euphoric or a ‘good times are here again’ type of rebound. This is going to be more of a slow and spotty uptick.”

But consumer confidence still has a long road to recovery.

Fitzpatrick doesn’t consider the recent uptick in spending to be sustainable. “I look at the resources people are using now. They are dipping into savings and with very little wage growth,” he said.