



## **Employment Continues To Be a Drag on Growth**

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The December employment report was a big, bad surprise. Instead of job growth of 150,000 or more, only 1,000 new jobs were created. Worse yet, the gains previously reported for October and November were revised downward. Manufacturing was particularly weak, shedding another 25,000 jobs, with the average workweek contracting as well. Retailing also had job losses. The strongest gains came in professional and business services and in temp agencies. The unemployment rate declined to 5.7 percent, but even this seemingly good news was misleading; the rate dropped only because more discouraged workers dropped out of the labor force.

All of this bad news is very surprising, because it doesn't square with the other labor market indicators reported recently. In particular, new claims for unemployment compensation have fallen significantly over the sixty days and help wanted advertising is up.

It is likely that the December report has overstated the weakness in labor markets for two reasons. First, the data are seasonally adjusted. Retail hiring actually went up in December, but not by as much as it has in recent years, so the seasonally adjusted figures are negative. This will reverse itself in January. Second, the household survey data on employment continue to be stronger than the payroll employment data that are the basis for the December employment report. Small businesses and new businesses are not captured in the payroll data, but are included in the household data, and this explains in part why the economy can improve and new claims for unemployment compensation can fall and yet the employment report can be weak.

That said, labor markets continue to be the softest part of the recovery. Strong gains in productivity and the continuing offshoring of jobs explains much of the weakness, and these factors are not going to change anytime soon. But as the

economic momentum continues, job growth will strengthen as well. Furthermore, the economic outlook for 2004 remains robust. Monetary and fiscal policy are very stimulative. Another \$100 billion in tax cuts are scheduled to occur this year, and since last year's cuts were retroactive to January, 2003, most people had over withholding for their 2003 tax returns, which will produce large refund checks in the spring. Interest rates remain low.

Nowhere are economic conditions better than here in Florida. Low interest rates and a rebounding economy have created a continuing boom in population growth, housing starts, and sales of seasonal residences. In addition, the falling value of the dollar makes a Florida vacation even more attractive. So we will continue to have a great 2004.

This is Hank Fishkind for 90.7 FM, WMFE News.

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