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July Employment Disappoints - So How Weak is the Economy?

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Friday's employment report was very disappointing. Only 32,000 jobs were created in July, much lower than the consensus projection of 220,000. Furthermore, the Labor Department revised downward the already weak reports for May and June.

The employment market weakened because of lackluster growth in the services sector (manufacturing jobs actually increased by 10,000 in July). The weakness was particularly apparent in financial services, retail trade, information, social services, and leisure and hospitality, all of which shed workers in July. A jobs slowdown was widely expected since the very strong gains in employment this spring were not sustainable, particularly for residential construction and housing-related retail sales, in light of the Fed's announcement that it would raise interest rates. That said, no one expected this virtual collapse in new hiring.

Some of the blame goes to high oil prices. The spike in oil prices caused consumers to rein in spending this spring and summer, and it caused employers to hold back both because of the higher prices and because of the escalating instability in the Mid-East. With the July report in hand, the economy has generated 1.48 million new jobs compared to the 2.7 million lost during the last recession. Job creation so far this year has averaged 177,000 – which is barely enough to keep up with population trends, leaving the unemployment rate constant.

Here in Florida, and particularly in central Florida, the news is only a bit better. In June, the latest month for which data are available, Florida's economy generated a modest 11,000 new jobs, which is a sharp slowdown from the springtime boom. Furthermore, based on the U.S. report for July featuring the drop in jobs in financial services, construction, retail trade, and leisure/hospitality, it is likely that Florida, too, endured a further slowing in job creation. And this pattern of slowing job creation is repeated across central Florida. Even though tourism and business meetings have fully recovered, there is little further upward momentum in the data. So employers here are also holding back.

The only good news in all this is that interest rates dipped on the poor employment news; the rate on the 10-year treasury fell to 4.13 percent. There is some doubt as to whether the Fed will raise interest rates at its meeting next week. However, I think there is little chance that the Fed will hold back. The last quarter percent point move was so meager that in fact the Fed needs to push the funds rate up, especially in light of escalating oil prices and rising inflation. But if employment markets continue to disappoint, this may be the last Fed move for a while.

This is Hank Fishkind for 90.7 FM, WMFE News.