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Low job growth casts doubt on recovery

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The U.S. economy added fewer jobs than expected in November. The weakness in the jobs report 17 months after the recession officially ended is a vivid reminder that we have a long way to go before a full-fledged recovery. The unemployment rate has been above 9 percent for 19 months, the longest period for such an elevated level since World War II.

Retailers are becoming more cautious with the combination of weak job numbers and the extension of jobless benefits in doubt. Congress could deliver a double whammy to Christmas if it fails to extend unemployment benefits and fails to deliver an extension of tax cuts. The air could go out from what started as a robust holiday season.

Private-sector employers added only 50,000 jobs last month, significantly fewer than the 250,000 needed just to accommodate workforce growth. The jobless rate rose to 9.8 percent, the highest level since April. Economists had expected a growth rate of 144,000 jobs and a jobless rate of 9.6 percent. Retail shed jobs going into the Christmas season. Manufacturing lost 13,000 jobs, the fourth decline in a row. Government shed 11,000 jobs, mostly at local levels where tight budgets have caused problems.

The weak numbers caused Vice President Joe Biden to say there is no denying the numbers were disappointing. Ben Bernanke recently said that job creation is the most important job the government faces; this was the motivation behind the Fed’s latest bond purchase program. Bernanke said the jobless rate could grow if the economy continues to grow at its sluggish rate. He is particularly concerned about those who have been out of work for an extended time.

The broader measure of unemployment, which includes people who have stopped looking for work, remained at 17 percent. The average work week remained at 34.3 hours. Employers normally increase work hours for the existing workforce before hiring new people. Average hourly earnings increased just 1 percent as household consumption remained weak compared to previous recoveries.

The ISM non-manufacturing index rose from 54.3 to 55 in November. Readings above 50 indicate the economy is expanding. The future orders index expanded slightly as price pressure abated. Thus, the employment numbers were doubly disappointing given the rise in the ISM index during the Christmas season. The manufacturing index fell in October, decreasing 0.9 percent. November showed a continuing decline, though a slightly expanding economy.

The weaker-than-expected data caused the dollar to weaken against major currencies. Stocks fell and Treasury prices rose.

Housing continues to show weakness. But one silver lining is that mortgage applications have started to trend upward. If the banks would actually approve some of these applications, we could see a recovery in the housing market.

Consumers continue to surprise, with post-Thanksgiving sales exceeding expectations.

In the background is the European debt crisis, which includes not only banks but countries as well. Ireland got a large bailout via the European Central Bank, the International Monetary Fund, Great Britain and the U.S. (through the IMF). It is now expected that other countries, such as Portugal and Spain, may be caught up in the crisis. Could Italy follow?

Germany, which has been the linchpin of the bailouts, is growing weary of backstopping profligate governments. The Iron Lady of Germany, Angela Merkel, has extracted some tough concessions so far, but nevertheless has a limit.

It seems unlikely that the ECB will abandon its needy brethren, but conditions for bailouts may become tougher. It seems unlikely that the ECB will break up, but can the euro survive in its present form? Could we perhaps have a two-euro system: one for the stronger countries and one for the weaker?

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