

U.S. Economic Outlook Worsens After Jobs Report

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WASHINGTON (AP) — The faltering U.S. job market has prompted economists to take a much dimmer view of the country's growth prospects. That's a shift from just a few weeks ago, when many were upgrading their forecasts.

Friday's surprisingly bleak jobs report for May followed a spate of disappointing data. Manufacturing activity slowed, an index of home sales fell and consumer confidence tumbled. Mounting troubles in Europe and elsewhere have heightened economists' concerns.

"The latest economic data have been decisively disappointing," Michael Feroli, an economist at JPMorgan Chase, wrote in a client note.

JPMorgan Chase sharply reduced its growth forecast for the July-September quarter to a 2 percent annual rate, down from 3 percent. It cited the weaker U.S. hiring and a likely drop in U.S. exports related to slower growth overseas.

And JPMorgan Chase now forecasts growth of 2.1 percent for 2012, down from 2.3 percent.

Julia Coronado, an economist at BNP Paribas in New York, said she now expects growth of 2.2 percent this year, down from her previous forecast of 2.4 percent. She also revised down her estimate of growth in the April-June quarter to a 2.2 percent annual rate, from a 2.5 percent rate.

"We keep hoping that we're going to turn a corner and move into a stronger phase of recovery, and the door keeps getting slammed shut," Coronado said.

Forecasting firm Macroeconomic Advisers and Swiss bank UBS have also marked down their expectations since Friday's jobs report.

As a general rule, it takes about 2.5 percent growth to generate enough hiring to keep up with population growth and prevent the unemployment rate from rising. The reduced forecasts suggest that hiring may not strengthen much this year.

After months of fitful expansion since the recession ended three years ago, many analysts had expected the economy to begin strengthening steadily.

Last month, the National Association for Business Economics said its latest survey of economists found rising expectations for job gains and housing construction. And in April, the Federal Reserve raised its forecast for growth this year to nearly 2.7 percent, from a January estimate of 2.5 percent.

Now, it looks as if the recovery is stumbling again.

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The biggest blow was Friday's jobs report. It said employers added only 69,000 jobs in May, the fewest in a year. The government also said far fewer jobs were added in the previous two months than first thought — 11,000 fewer in March and 38,000 fewer in April. And the unemployment rate rose to 8.2 percent from 8.1 percent, the first increase since last June.

Less hiring means fewer Americans have money to spend. That holds down consumer spending, which drives about 70 percent of the economy and helps fuel job growth. And a rising unemployment rate tends to reduce confidence. That can further shrink spending.

Even at stronger levels of hiring, Americans' incomes had been already growing only weakly. They increased 0.2 percent in April, the government said last week, the slowest pace in five months.

Other reports last week showed that more people sought unemployment benefits, a sign that hiring could remain sluggish. Construction spending rose, but by less than many economists had forecast. And the government said the economy expanded at an anemic 1.9 percent annual rate in the first three months of 2012. That's down from 3 percent in the fourth quarter.

The run of bleak reports extended into Monday. Companies cut their orders to factories for a second straight month, the government said. And a gauge of business investment plans fell.

On top of that, Europe's financial crisis is worsening. Worries are growing that in elections later this month, Greek voters will reject the terms of a bailout and lead the country to drop the euro. That could ignite financial chaos and perhaps force larger economies among the 17 countries that use the euro, such as Spain and Italy, to abandon the currency, too.

The resulting crisis would slow U.S. exports, about 20 percent of which go to Europe. Fear about a collapse of the euro has contributed to a nearly 10 percent drop in the S&P 500 stock index since April 2. Falling stock prices tend to damage consumer confidence and reduce spending.

Key developing countries, such as China, India and Brazil, are also reporting weaker growth. Those countries are big markets for U.S. heavy machinery. U.S. farmers also export corn, soybeans and other grains to China.

"You've got deterioration on all fronts at this point," said Scott Anderson, an economist at Wells Fargo Securities.

Anderson said Wells Fargo will likely reduce its forecasts for U.S. growth.

Still, some trends remain positive for the U.S. economy. Gas prices have been falling, which puts more money in Americans' pockets. With mortgage rates at record lows, more Americans are buying homes. Builders have increased spending

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on construction. Auto sales are up.

Maury Harris, chief U.S. economist at UBS, said the weak May jobs report shows businesses are nervous about the economic outlook. Yet consumers remain willing to spend. Their spending rose 0.3 percent in April, above the 0.2 percent rise in March. That qualifies as a bright spot in last week's reports. Harris expects consumer spending to keep rising and to reinvigorate business activity by fall.

Jack Kleinhenz, chief economist at the National Retail Federation, the nation's largest retail trade group, says he's sticking with the group's annual retail sales growth forecast of 3.4 percent for now.

"I'm concerned, but I am not ready to put up a red flag on everything," Kleinhenz said.

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