May U.S. Jobs Report In Spotlight At Time Of Concern

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WASHINGTON (AP) — The government's release Friday of the May jobs report [1] comes at a time of anxiety over the U.S. economy and whether the Federal Reserve will soon scale back its extraordinary support.

Economists expect another month of job gains roughly in line with April's increase of 165,000. The unemployment rate is expected to remain at 7.5 percent, a four-year low but still historically high.

Some economists have cautioned in recent days that job growth for May could fall short of expectations. Some noted that surveys this week showed that hiring at factories and service companies barely rose in May.

The Labor Department will release the employment report at 8:30 a.m. EDT.

Job growth has been steady this year, despite higher taxes and federal spending cuts. Through April, the economy has added an average of 196,000 jobs a month, ahead of last year's pace.

Gains in jobs, home prices and some other areas of the economy have led Fed policymakers to consider scaling back the central bank's bond purchases later this year. The bond purchases have been intended to drive down long-term interest rates and encourage borrowing and spending.

Speculation that the Fed could taper its stimulus has led investors to sell stocks and push up bond yields. But slower job growth in May might make the Fed less inclined to reduce its bond purchases this year.

The economy grew at a solid annual rate of 2.4 percent in the first three months of the year. Consumer spending rose at the fastest pace in more than two years. But economists worry that steep government spending cuts and higher Social Security taxes might be slowing growth in the April-June quarter to an annual rate of 2 percent or less.

Consumers appeared earlier this year to shrug off the tax increase. But in April, their income failed to grow, and they cut back on spending for the first time in nearly a year. A Social Security tax increase is costing a typical household that earns $50,000 about $1,000 this year. For a household with two high-earners, it's costing up to $4,500.

Cuts in defense spending might have slowed factory output in some areas, according to a Fed report released this week. Factory activity shrank in May for the

first time since November, and manufacturers barely added jobs, according to a survey by the Institute for Supply Management.

A separate ISM survey found that service companies grew at a faster pace last month but added few jobs. Service firms have been the main source of job growth in recent months.

Some positive signs of the economy's resilience have emerged. Service companies reported an increase in new orders, the ISM found. That suggests that businesses could expand further in coming months.

And steady gains in home sales and construction are providing support for the economy even as manufacturing weakens.

Home prices jumped by the most in seven years in April, according a report by CoreLogic released Tuesday. Higher home values can make households feel wealthier, spurring more spending.

They can also help sustain the recovery by encouraging would-be buyers to purchase homes before prices rise further. Rising prices also give developers an incentive to build. Homebuilders applied for the most permits in nearly five years in April.

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