

US Economic Recovery Grinds On at Slow Pace

Employers kept their pace of hiring virtually steady in December, falling short of the levels needed to bring down the country's lofty unemployment rate and pointing to lackluster economic growth in 2013.

Other data on Friday gave stronger signs of growth, with the U.S. service sector activity expanding the most in 10 months.

Payrolls outside the farming sector grew 155,000 last month, the Labor Department said. That was in line with analysts' expectations and slightly below the revised gain of 161,000 reported for November.

The jobless rate was steady at 7.8 percent. The report reinforces expectations of 2 percent economic growth this year, which is unlikely to quickly bring down the unemployment rate.

It is also unlikely to make the U.S. Federal Reserve rethink its easy-money policies anytime soon despite growing unease by some policymakers over a bond-buying program.

"The U.S. economy is just muddling through," said Tom di Galoma, managing director at Navigate Advisors in Stamford, Connecticut.

The Labor Department raised its estimate for the unemployment rate in November by a tenth of a point to 7.8 percent, citing a slight change in the labor market's seasonal swings.

Most economists expect the U.S. economy will be held back by tax hikes this year as well as by weak spending by households and businesses, which are still trying to reduce their debt burdens.

Friday's data nonetheless gave signals of some momentum in the labor market's recovery from the 2007-09 recession.

Gains in employment were distributed broadly throughout the economy, from manufacturing and construction to health care.

Also, many economists had expected December's payroll gains to be padded by one-time factors like the recovery from a mammoth storm that hit the East Coast in late October.

The government had said last month the storm had no substantial impact on the November data, and many economists expected the government on Friday to recant by revising downward payroll gains in November. Instead, the government revised November payrolls upward by 15,000.

Average hourly earnings rose 0.3 percent last month, slightly more than analysts had expected, while the length of the average workweek edged higher.

"This shows the economy is chugging along, with payroll gains at about the average it has been over the past year," Tom Porcelli, an economist at RBC Capital Markets in New York.

Separately, the Institute for Supply Management said its services index rose to 56.1 last month, the highest since February.

Policymakers Uneasy

Some analysts said the pace of hiring remains too weak for the Fed to consider scaling back its plans to buy bonds. The U.S. central bank has said it wants substantial improvement in the employment outlook before taking its foot off the accelerator.

"There is nothing here to suggest the Fed will see indications of a 'substantial' improvement," said Julia Coronado, chief North America economist at BNP Paribas in New York.

However, Craig Dismuke, a strategist at Vining Sparks in

Memphis, Tennessee, said the current pace of job creation will raise pressure on the Fed to stop bond purchases after the middle of the year.

The Fed has kept interest rates near zero since 2008, and in September promised open-ended bond purchases to support lending further. On Thursday, however, minutes from the Fed's December policy review pointed to rising concerns over how the asset purchases will affect financial markets.

Major U.S. stock indexes were mixed after the morning data. The dollar slightly extended gains versus yen, and trimmed losses versus the euro, while U.S. bond prices weaken after stronger-than-expected ISM survey.

Austerity's Bite

Despite the signs of some momentum in hiring, a wave of government spending cuts due to begin around March loom over the economy. Also threatening the recovery, the United States could default on its debt if Congress doesn't give the government permission within a few months to increase borrowing.

"The economy will certainly do better if Congress does what it normally does, which is raise the debt ceiling without drama," Alan Krueger, a White House economist, told MSNBC.

Many economic forecasts assume the scheduled spending cuts – which would hit the military, education and other areas – will ultimately be pushed into next year as part of a deal sought by lawmakers to reduce gradually the government's debt burden.

Initially, the cuts were planned to have begun this month as part of a \$600 billion austerity package that also included tax hikes.

Hiring in December may have been slowed by uncertainty over the timing of the austerity.

“Companies were very worried about the fiscal cliff, so it’s a good number that they were still hiring,” said Yelena Shulyatyeva, an economist at BNP Paribas in New York.

Congress this week passed legislation to avoid most of the tax hikes and postpone the spending cuts.

Even with the last-minute deal to avoid much of the “fiscal cliff,” most workers will see their take-home pay reduced this month as a two-year cut in payroll taxes expires.

Austerity already held back the U.S. economy in 2012. In December, government payrolls shrank by 13,000.

That leaves the Fed’s efforts to lower borrowing costs as the main program for stimulating the economy.

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