Unemployment Report: Another Stalemate on Jobs

 By Mark Zandi, Friday, August 3, 2012

What a relief. After a string of disappointing economic news, the job numbers for July were very welcome. They suggest that while the economy isn't going anywhere fast, the U.S. recovery remains intact. And while the economy is sure to remain front-and-center in the presidential election, Friday's report suggests it will be a toss-up issue for the candidates.

The key number in the July report was the 163,000 net gain in nonfarm payroll employment—well above the 100,000 expected by the consensus of economists and the strongest gain in months. Much of the labor market's recent weakness thus appears to be related to temporary, weather-related, and technical measurement issues. Looking beyond the gut-wrenching ups and downs in the monthly data, the economy has added a solid average of 150,000 jobs per month now for nearly two years.

Another encouraging sign is that employers across nearly every industry are adding to their payrolls. Industries from manufacturers to hotel chains are adding staff; only government is laying off workers. The private sector isn't hiring a lot, but employers are holding tight to their existing work force. Layoffs are sparse.

Having said this, job growth isn't strong enough to reduce the unemployment rate, which notched higher to an uncomfortable 8.3 percent. With so many people unable to find jobs, the national psyche remains on edge, and the economy remains vulnerable to anything else that may go wrong. The coming months offer plenty of potential pitfalls, moreover. Europe's debt crisis is sure to flare again soon. Washington's fiscal problems are also intensifying as Congress debates what to do about the Bush-era tax cuts and the automatic cuts to federal spending set to hit next year.

It's hard to see how job growth can gain traction or how unemployment can decline in earnest until these issues are nailed down. At best this won't happen until after the presidential election, and probably not until after the scheduled tax increases and spending cuts are staring the next Congress and president in the face.

The economy will and should be at the top of the political agenda, and the job numbers offer plenty of fodder to both candidates. President Obama will point to July's stronger job gains and the increase in employment of four million jobs since payrolls hit bottom two and a half years ago. Mitt Romney, meanwhile, will note the 8.3-percent unemployment rate, which is higher than when the president took office, and that employment is still 4.8 million jobs below its pre-Great Recession peak.

Both perspectives are compelling, and will likely wash each other out. Studies that relate economic performance to election outcomes show that a key threshold for how voters behave is 150,000 net new jobs per month. This is precisely the job growth we are getting, and are likely to get from now until November. The economy's performance is the big political issue, but it doesn't favor one candidate over the other.

It is worth noting that President Obama may benefit from the stronger economies of several key swing states. Ohio is probably the most important, and its economy has done much better than most of the nation, driven by the reviving auto industry. Ohio's unemployment rate is closer to 7 percent. Florida isn't doing as well, but its housing market, which was close to ground zero for the Great Recession, is turning fast and the travel industry is adding to payrolls. Virginia, New Hampshire, and Iowa have among the country's strongest job markets.

But is also worth noting that no president in recent history has won reelection with such a high unemployment rate. Ronald Reagan faced the highest rate going into his 1984 campaign, but that was 7.2 percent on Election Day. A rate above 8 percent rate takes on more importance because of Obama's forecast that unemployment would not top 8 percent if his policies to combat the Great Recession were enacted by Congress, as they were.

All the political *sturm und drang* around the jobs numbers is appropriate. But in the end, the presidential election could well turn on something else completely.

Mark Zandi is the chief economist of Moody's Analytics. His latest book, *Paying the Price: Ending the Great Recession and Beginning a New American Century*, will be published in September by FT Press.

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