REUTERS

» Print

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit www.reutersreprints.com

Jobless rate drops to 8.6 percent, hiring picks up

9:15am EST

By Lucia Mutikani



WASHINGTON (Reuters) - The unemployment rate fell to a 2-1/2 year low of 8.6 percent in November and companies stepped up hiring, further evidence the economic recovery was gaining momentum.

Nonfarm payrolls increased 120,000 last month, the Labor Department said on Friday, in line with economists' expectations for a gain of 122,000.

The relative strength of the report was also bolstered by revisions to the employment counts for September and October to show 72,000 more jobs created than previously reported.

While part of the decline in the unemployment rate from 9.0 percent in October was due to people leaving the labor force, the household survey from which the jobless rate is derived also showed solid gains in employment

The unemployment rate had been expected to hold at 9 percent. It last dropped by 0.4 percentage point in January.

"The really good news is that employment has grown for four months running -- in large steps. There was a solid increase in private employment. Everything there looks steady, but clearly healthy and positive," said Pierre Ellis, a senior economist at Decision Economics in New York.

However, retail accounted for more than a third all new private sector jobs in November.

U.S. stock index futures added gains after the report, while Treasury debt prices briefly extended losses and interest rate futures held steady. The dollar extended gains versus the yen.

The report is unlikely to take much pressure off President Barack Obama, whose economic stewardship will face the judgment of voters next November. The outlook for the U.S. economy is also being threatened by Europe's deepening financial crisis.

The report could temper the appetite among some Federal Reserve officials to ease monetary policy further.

In forecasts released earlier this month, the Fed said the jobless rate would likely average 9 percent to 9.1 percent in the fourth quarter. It did not expect it to drop to an 8.5 percent to 8.7 percent range until late next year.

Data ranging from manufacturing to retail sales suggest the growth pace could top 3 percent in the fourth quarter, in contrast to China, where growth is cooling and the euro zone, which many economists believe is already in recession.

While the economy's growth pace appears to have accelerated from the third quarter's 2 percent annual rate, unemployment remains too high.

At the same time, U.S. fiscal policy is set to tighten in the new year, even if lawmakers extend a payroll tax cut.

Taken together, some analysts believe the headwinds facing the U.S. economy will lead the Fed to ease monetary policy further by buying more bonds.

"We still have a very long way to go. I would favor the Fed going for a third round of quantitative easing," said Ryan Sweet, a senior economist at Moody's Analytics in West Chester, Pennsylvania. "It's the only powerful tool left, even though it's losing some of its bang."

Analysts say the economy needs to create at least 125,000 jobs every month just to keep the unemployment rate steady.

But there are reasons to be cautiously optimistic.

While the government's survey of employers has shown a still tepid pace of job growth, its separate poll of households that is used to calculate the unemployment rate has shown robust jobs gains for four straight month.

At the same time, a broad measure of unemployment that includes people who want to work but have given up looking for jobs and those working only part time for economic reasons dropped to a 2-1/2 year low of 15.6 percent in November from 16.2 percent in October.

PRIVATE SECTOR SHOULDERS BURDEN

All the increase in nonfarm payrolls in November again came from the private sector, where employment rose 140,000 after increasing 117,000 in October.

Government employment fell by 20,000. Public payrolls have dropped in 10 of the past 11 months as state and local governments have tightened their belts.

Outside of government, job gains were almost across the board, with retail surging 49,800.

Elsewhere, construction payrolls fell 12,000 after losing 15,000 jobs in October. Factory jobs edged up 2,000, with most of the gains coming from automakers.

Health care and social assistance hiring rose 18,700 after adding 30,300 job in October. Temporary hiring -- seen as a harbinger for future hiring - increased 22,300 after adding 15,800 jobs last month.

The average work week was unchanged at 34.3 hours, with hourly earnings falling two cents.

(Additional reporting by Ellen Freilich in New York; Editing by Andrea Ricci)