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A Disappointing Jobs Report, and Doom at the End of the Tunnel

It is no easy thing to peer through the fog of recent economic data. Confidence that the economic recovery would accelerate ran into a not-so-good job report today. To the chagrin of the President's re-election campaign team, only 121,000 workers were added to private sector payrolls in March, far below expectations, and only about half the previous month's total. The unemployment rate ticked down from 8.3% to 8.2%, but only because fewer people were seeking work. The Federal Reserve Board's monetary policy gurus are confirmed in their view that it is too soon to tighten policy, and those who have been calling for even looser policy, a QE3, will once again raise their voices.

The unexpectedly weak jobs report caused worries that have recently been relegated to the background to re-surface. Fears that the recession hitting the eurozone would have a negative impact on the US economy are again on the rise, after being overlooked in the pre-jobs report euphoria. Spain's difficulty in persuading investors to buy its latest IOUs, and news that the eurozone's problems have spread from the area's periphery to so-called core countries such as the Netherlands and France are again prominently featured in news reports. It is clear that the austerity

medicine prescribed by Dr. Merkel is killing her patients, from Greece, to Spain, to Portugal to Italy, making at least the Greeks wonder whether they should seek a cure for their ills outside the eurozone. Should they do that, most Germans are promising to wish them a not-so-fond farewell.

Still, one month of jobs data is not a trend, especially when we are dealing with data that are affected by seasonal weather factors and subject to revision. On the bright side we have several developments that might prove more consequential in the long run than one month's slow growth in job creation.

First is what is called the re-shoring of jobs: bringing home jobs that have been sent to China. Wages in China are rising rapidly as the regime seeks to avoid greater social unrest by giving workers a larger share of the profits from the nation's massive exports. Meanwhile, American manufacturers have sweated the fat out of their operations, bringing costs more in line with those in China. Partly because of tax incentives, partly because it has upped its efficiency, GE is bringing home jobs in its appliance-making operations. On a lesser scale we have Master Lock. President Obama used its unionized plant in Milwaukee, Wisconsin, as a photo op backdrop to congratulate the company for bringing 100 jobs back from China. This trend, if indeed it is a trend, is unlikely to bring home all or even most of the jobs lost to other countries, but it is brightening the employment outlook in manufacturing, a sector that added 37,000 jobs last month.

US firms are also doing better in their competition with European firms. Three academic researchers, Nicholas Bloom, Raffaella Sadun and John Van Reenen, of Stanford University, the Harvard Business School and the London School of Economics, respectively, report that US multinationals obtain higher productivity from investment in information technology (IT) than non-US multinationals due to "tougher people management" -- promotions, rewards, hiring, and firing bad performers -- techniques of US companies. This reverses "the long-standing catch-up of Europe's productivity level with the United States."

Three sectors providing more good news are retailing, autos and, surprise, housing. Retailers are reporting better-than expected sales, either because Easter comes earlier this year, or because consumers are attracted to the new, bright fashions, or because warmer weather earlier in the year brought forward sales that would ordinarily be wrung up about now. We should know next

month whether good sales figures in February were “borrowed” from March.

Vehicle sales in March were the highest in five years. Because of deferred purchases, the fleet now on the road is rattlingly old -- 10 years on average. The attractiveness of new, fuel-efficient, technology-intensive vehicles rolling off production lines is adding to the incentive of $4 gasoline to persuade consumers to give up their clunkers. Sales of small cars are growing, but even owners of SUVs are finding that by trading in their old trucks for newer models they can cut their gasoline costs in half. Only sales of electric vehicles, Obama’s vehicle of choice for others, lag. Little wonder: it would take 26 years to recover the added cost of Chevy Volt when compared with a tradition version of the same model.

The other source of good news is more surprising: housing. Because apartment vacancies are at a decades-low level, rental rates are rising, making the relative cost of buying a home more attractive than in a very long while. Nishu Sood, housing analyst with Deutsche Bank, reports that historically it cost about 10% less to rent an apartment than to own a home; now it costs 15% more to rent than to buy. That, along with rates on 30-year fixed mortgages that remain below 4%, has previously reluctant buyers ringing their estate agents. One major builder tells me that this year “has no relation” to the dreary years of the past as Americans and foreigners are back in the market, the latter buying condos and houses in the US as vacation homes or to store their excess capital in a safe country. Nearly half of the purchases by foreigners were all-cash deals, and many of the buy-to-let deals were made by investment groups snapping up as many as 1,000 homes for rental now, and sale when prices recover. Several builders have been accumulating “land banks” at recession-prices. Many of these parcels already have utilities in place, and so are shovel-ready.

This is not to say that all is well in the housing market. Credit standards are high, preventing some buyers from getting mortgages. Prices remain about one-third below their peaks, and some say will fall another 3% this year. About 25% of all mortgages exceed the value of the homes that secure those mortgages, and foreclosures are rising sharply now that legal problems surrounding repossession procedures have been resolved. Still, at minimum the housing sector will be less of a drag on the

economy than it has been in the past.

All of these data will pale into insignificance if our politicians carry their uncompromising partisanship beyond November's election. At the end of this year four events are on the calendar, almost any one of which can bring the recovery to a screeching halt, and all combined can hurl the economy over what Fed chairman Ben Bernanke calls "a massive fiscal cliff", making a mere recession seem like a pleasant walk in the park.

Unless Democrats and Republicans can come to a deal, the Bush tax cuts will expire, payroll tax relief will end, automatic spending cuts previously agreed will come into effect, and America will hit the ceiling on what it can borrow. Such fiscal tightening can knock 3%-4% off GDP.

It is not inconceivable that the lame-duck congress will leave these problems to its successor, as would Obama should he be busy packing his belongings at the White House. If Obama loses in November, his successor would be powerless to act until sworn in late in January. We have seen in Europe just what ill-timed, badly paced fiscal tightening, aka austerity, can do to an economy. "It's not quite Armageddon," notes Bloomberg Businessweek, which is not quite reassuring.