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Employment Report Shows 166,000 Gain in Jobs

By MICHAEL M. GRYNBAUM

A robust employment report offered investors a pleasant surprise, but an uncertain climate kept stock markets down most of the day.

The economy added 166,000 jobs in October, the fastest pace in five months, the Labor Department said this morning. Payrolls grew more than twice what analysts had predicted, led by a sharp increase in the service sector.

The monthly jobs report is considered a bellwether of the nation's economic health. But investors remained uneasy, with stocks fluctuating through today's session before closing slightly higher. The Standard & Poor's 500-stock index ended at 1,509.65, up 1.21 points, or 0.1 percent. The [Dow Jones](#) industrials gained 0.2 percent, closing at 13,595.10, up 27.23.

Big banks and brokerage houses led the declines, as [Merrill Lynch](#)'s stock plunged more than 8 percent to a two-year low after analysts questioned its relationship with several hedge funds. Investors fear the bank will be forced to write down the value of assets beyond the \$7.9 billion it wrote down in the third quarter, adding to concerns about a tightening credit market.

[Chevron](#), the oil company, reported a 24 percent drop in third quarter earnings, citing weaker refining margins. The disappointing performance followed a similarly poor report from [Exxon Mobil](#), whose profit declined 10 percent last quarter.

Investors are also skittish on the economic outlook, as analysts predict the fourth quarter will include a broad slowdown in growth and spending.

Better-than-expected job growth would normally cheer the markets. But analysts cast doubt on the 166,000 growth figure, underscoring the uncertainty on Wall Street.

Some analysts saw distortions in the data, questioning an increase in administrative jobs. Others said that most of the job gain came from an estimate that the Labor Department makes each month about how many jobs were added by new businesses, known as the "birth and death" model. The Labor Department did not actually find evidence of these jobs; it assumed they were created based on historical patterns.

And a separate survey of households, also conducted by the Labor Department, presented a very different picture of the job market. It showed that fewer Americans over all were employed in October. The labor force shrank by 211,000 jobs, and 465,000 Americans said they were no longer working.

The household figures are considered highly volatile, but some economists said they were swayed by the numbers.

“The slowdown in household may, on this occasion, be telling you the true story,” said Ian C. Shepherdson, the United States economist for High Frequency Economics, a consulting firm in Valhalla, N.Y. He said the 166,000 rise in payrolls “is incredibly narrow and sort of implausible.”

Still, many analysts said that the expansion in October meant that the Federal Reserve would be less likely to cut interest rates again when it meets in December, though many continue to predict a weaker outlook for the fourth quarter.

“The financial turmoil and pessimism hitting Wall Street is not affecting business hiring on Main Street,” said Mickey Levy, chief economist at [Bank of America](#). Still, he acknowledged a “tremendous amount of uncertainty” as analysts fear the effect of rising oil prices and a worsening housing recession.

The estimate of job growth, which beat even the highest estimates, follows a downwardly revised 96,000 gain in September, which was revised down from the previous estimate of 110,000. Payrolls are increasing at the slowest annual rate since June 2004.

President Bush, speaking in Columbia, S.C., said the growth offered support for his administration’s economic platform. “This is now our 50th consecutive month of uninterrupted job growth, the longest in the nation’s history,” he said.

The unemployment rate held steady at 4.7 percent in October, the highest rate since August 2006, but only because the survey found that more people stopped looking for work and were therefore not counted by the government as unemployed.

Wages ticked up 0.2 percent, to \$17.58, slightly below expectations, and are up 3.8 percent compared with those a year earlier. The length of the average workweek stayed flat at 33.8 hours.

Manufacturing and retail jobs dropped sharply in October, underscoring analysts’ expectations that consumer spending and business activity will slow in the fourth quarter as problems in the housing market affect the broader economy.

But factories reported an 0.2 increase in orders in September, rebounding from a 3.5 percent

decrease in August and beating expectations. Orders of capital goods that excluded military materials jumped sharply, the Commerce Department said.

David Leonhardt contributed reporting.

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