Jobs picture dims as unemployment claims rise

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The employment picture is looking bleaker as applications for jobless benefits rose last week to the highest level in almost six months.

It's a sign that hiring is weak and employers are still cutting their staffs.

First-time claims for jobless benefits edged up by 2,000 to a seasonally adjusted 484,000, the Labor Department said Thursday. Analysts had expected a drop. That's the highest total since February.

Initial claims have now risen in three of the last four weeks and are close to their high point for the year of 490,000, reached in late January. The four-week average, which smooths volatility, soared by 14,250 to 473,500, also the highest since late February.

Analysts said that the unexpected rise in claims suggests hiring in August won't be much better than July. The economy added a net 12,000 jobs last month after excluding the loss of temporary census positions. That's not nearly enough to reduce the unemployment rate, which is currently 9.5 percent.

The jobless claims report "represents a very adverse turn in the labor market, threatening income growth and consumer spending," Pierre Ellis, an economist at Decision Economics, wrote in a note to clients.

The prospect of more layoffs added to this week's grim outlook for the economy, which began Tuesday when the Federal Reserve lowered its assessment of the recovery.

The stock market fell in morning trading after the release of the claims report and a disappointing earnings report from Cisco Systems Inc. The Dow Jones industrial average fell 65 points. Broader indexes also declined.

Economists closely watch weekly claims, which are considered a gauge of the pace of layoffs and an indication of employers' willingness to hire.

The government's July jobs report, released Friday, showed that the economy lost a net total of 131,000 jobs last month. Excluding the impact of the elimination of 143,000 temporary census jobs, the economy added a meager 12,000 positions, as layoffs by state and local governments almost canceled out weak hiring by businesses.

Thursday's report on jobless claims indicates that trend may not change soon. Claims fell steadily last year from their peak of 651,000, reached in March 2009. But they have mostly leveled out this year at or above 450,000. In a healthy economy

with rapid hiring, claims usually drop below 400,000.

The rise in claims is a sign that private employers may be ramping up layoffs, which declined as recently as June, according to a separate government report released Wednesday.

States with the largest increases in claims two weeks ago cited rising layoffs in the construction and manufacturing industries. The state data lags the national report by one week.

Some economists speculate that many census workers whose jobs are finished are requesting unemployment benefits.

Claims could also be rising because of large job cuts by state and local governments, which are struggling with unprecedented budget gaps. State and local governments cut 48,000 jobs in July.

Another possibility is that small companies, facing tight credit, are still reducing their staffs, even as larger corporations slowly resume hiring.

The report comes after the Federal Reserve said Tuesday that "employers remain reluctant to add to payrolls." The central bank said the pace of economic recovery is likely to be more modest than anticipated.

And on Wednesday, the Commerce Department said June imports jumped while exports dropped. That pushed the trade gap to its widest point since October 2008. Many economists say that could reduce economic growth estimates in the April-to-June quarter to 1.2 percent — half the 2.4 percent annual rate the government estimated last month.

That's a sharp slowdown from the 5 percent growth in the final quarter of 2009 and the 3.7 percent pace in the January-to-March quarter. That weakening could be prompting more employers to cut staff, or at least hold off on hiring.

The total number of people receiving benefits dropped 118,000 to 4.45 million, the department said. But that doesn't include another 5.3 million people receiving extended benefits paid for by the federal government, as of the week ending July 24, the latest data available.

During the recession, Congress added up to 73 extra weeks of unemployment benefits, on top of the 26 usually provided by states. That extended program lapsed in early June but was reinstated by Congress last month.

Some companies are still cutting workers. Medical products manufacturer CareFusion Corp. said Wednesday it plans to eliminate 700 jobs, saving the company up to $120 million a year.

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