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The 4.6 Million

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

A television show that my better half and I have watched during the past three summers is called *The 4400*, which is carried on the USA Network. This show tells the stories of 4,400 people who disappeared over a period of fifty years.

These people all reappear at the exact same time at the same location without any memory of where they've been and what happened to them. Some of them have been altered and have strange abilities, both good and bad.

The show will begin filming its fourth season early next year in Vancouver for broadcast in hourly segments next summer. We like science fiction. This show is not great, but it's OK.

I mention this because I was thinking about "The 4.6 Million." Who are they?

...they are the estimated 4.6 million American workers who have reported finding employment during the past 60 months who are *not counted* as employed in the "official" monthly employment survey.

Two Surveys

As we have noted frequently, the official employment data each month results from a monthly survey of roughly 400,000 medium- and large-sized businesses. During the 60-month period from August 2001 through August 2006, this survey notes the net addition of 3,724,000 jobs in the American economy.

The nation's unemployment rate comes from a monthly survey of 60,000 households, with frequent changes in those households surveyed. This survey has an employment component as well.

During the same 60-month time period, however, the household survey notes the net addition of 8,338,000 jobs, or a difference of...

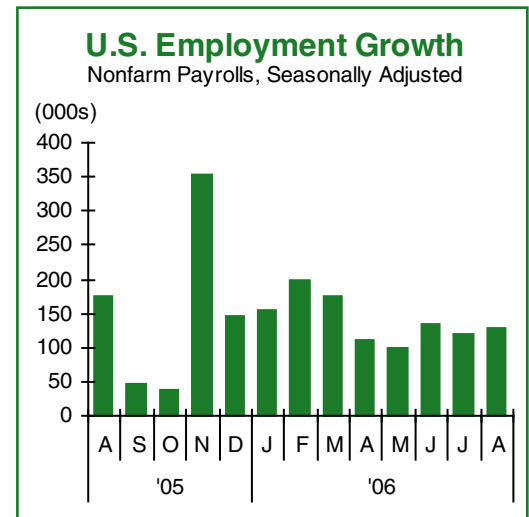
you guessed it...4,614,000 jobs, or more than twice as many!

The two surveys historically move closer together as more time passes and as

more complete data is available. Revisions to the data can be substantial.

The national media's focus on all things negative has constantly told us that we have suffered through a jobless recovery in recent years...

...I beg to differ



Small Business Growth

What the data tells me is that a much greater share of new jobs being created involves consultants, contract workers, 1099 workers, etc. The data also tells me that more small businesses are being created...and more existing small businesses are adding new workers...than perhaps ever before

...these jobs *are not* included in the survey of medium- and large-sized businesses...

...these jobs *are* counted in the monthly survey of households

No doubt a significant share of these jobs are lower skill, lower wage jobs. However, I would argue that many of these jobs are held by highly skilled, highly compensated people, who have, for the moment, been skipped over by the Bureau of Labor Statistics bean counters.

In the latest data covering the month of August 2006, the "official" survey noted the net addition of 128,000 new jobs in the

American economy, right on economists' consensus view.

The household survey?...August saw the net addition of an estimated 250,000 jobs, or roughly twice as many. This solid household estimate is why the nation's unemployment rate declined to 4.7% in August from 4.8% in July.

The employment data was one more piece of economic news telling a story of a U.S. economy headed toward the desired *soft landing*, as opposed to the *hard landing* predicted by many.

At the Fed

It has been no secret that the Federal Reserve, this nation's central bank, has been trying to slow the American economy for roughly two years, with an eye toward wringing inflation pressures out of the economy. The Fed's primary tool to achieve such slowing is their control of the most important interest rate of all...the federal funds rate.

As you will recall, this rate was at a 46-year low of 1.00% from June 2003 to June 2004, following 13 interest rate cuts by the Fed during 2001 to 2003. The Fed at that time was dealing with anxiety regarding 9/11, a modest U.S. recession, and fears that a Japanese-style deflation could engulf the American economy.

Seventeen one-quarter percent hikes in this key rate since June 2004 have led borrowing costs sharply higher, with more pain experienced by those of us who use credit. Changes in the federal funds rate, now at 5.25%, immediately impact all other short-term interest rates.

Have your credit card rates moved higher during the past 24 months? Has the rate on your home equity loan moved sharply higher during the past 24 months? Has the rate on your ARM (adjustable rate mortgage) moved somewhat higher during the past two years, squeezing your finances?

...you can thank the folks at the Fed

...you and I and millions of others are part of a grand experiment to use the

financial discomfort of sharply higher short-term interest rates to slow our spending levels in the economy

Different Boats

At the same time, however, millions of Americans have smiles on their collective faces as a result of higher short-term interest rates. These are the savers—many in or approaching their retirement—who suffered from a plunge in interest earnings on bank certificates of deposit, U.S. Treasury Bills, money market funds, etc. between 2002 and 2004.

Millions of retirees took the advice of financial “experts” and invested most of their money in more conservative investments such as bank certificates of deposit and bonds. They were advised that the stock market might be too risky for their age group.

Millions of these retirees saw their monthly interest incomes fall by 50% to 80%. Many of these folks had to slash spending in recent years.

Oil Find

The potentially enormous oil discovery in the Gulf of Mexico announced on September 4 by Chevron and its partners could be a big deal. This is to date the most successful of the extreme deep water drilling efforts. Additional actions in the Gulf could sharply boost proven reserves in the U.S. and lessen our dependence on oil from unfriendly sources.

The drilling technology allows Chevron to drill down 5.3 miles (a total depth of 28,125 feet, in waters that are 7,000 feet deep)...truly amazing!

Many of these people are much happier today with short-term rates of 3.50% to 4.00% to 5.00% to even slightly higher in some cases on their savings and other investments. Many would love to see the Fed crank up that rate hike mechanism another time or two.

At this point, we think the Fed is most likely finished. That is also the current consensus view. Some investment firms, such as Lehman Brothers, think the Fed will ultimately tighten monetary policy twice more. Other firms would suggest that the next Fed move will be to cut rates early next year.

“TEA”ser

We had (at least) two typos in last week's *Tea Leaf*. The first three people who identify the typos, and contact us at jeff@thredgold.com, will receive a copy of my wife Lynnette's new CD, entitled *Dancing With the Red Priest*.

She is a pop violinist & recording artist. This is her third CD and the music is outstanding. You can also visit her site at www.lynnette.com.



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