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Jobs Minutiae

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

The September U.S. employment data had something for everyone...

- For those who see the economy slowing rapidly, the net addition of only 51,000 jobs during September—the weakest monthly gain since the hurricane-impacted 37,000 net rise of October 2005—provided more ammunition to support their view
- For those (including me) who argue that U.S. economic growth has merely slowed and will not be falling off a cliff, the sharp 60,000 upward revision to the August employment gain (now 188,000 net new jobs versus the prior estimate of 128,000 jobs), provided support
- In addition, solid economic growth advocates could point to the decline in the September unemployment rate to 4.6% (from 4.7% in August) as further evidence of not spectacular, but stable, U.S. economic growth. The 4.6% jobless rate matched that of May and June of this year as the lowest in five years
- And for those of us who have argued frequently that “official” U.S. employment gains of recent years have been understated, the U.S. Department of Labor noted that job gains for the 12-month period ending March 2006 have been *revised higher* by 810,000 jobs. Such a revision was the largest annual “benchmark” revision to prior data since the adjustment process began in 1991

...touché

The September gain of only 51,000 net new jobs was less than half the gain expected within the financial community. However, the 120,000 average monthly job gain during August and September approaches the year-to-date average pace of 137,000 net new jobs monthly. The economy has added nearly 1.8 million net new jobs during the past year.

The nation’s unemployment rate declined to 4.6% in September, matching

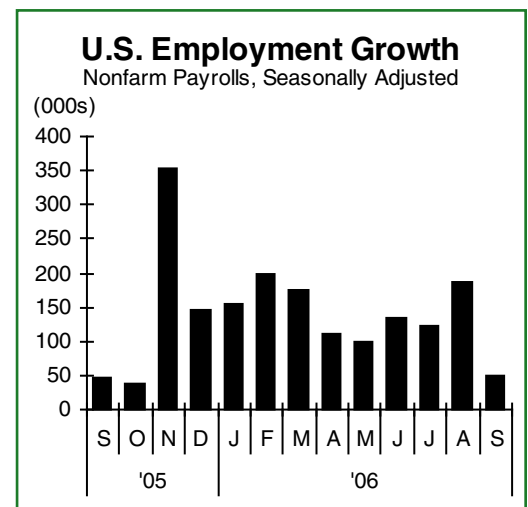
a five-year low. The monthly household survey, from which the unemployment rate is derived, noted a gain of 271,000 net new jobs in September, to a total of 144,850,000 employed people. The labor force was estimated at 151,799,000 during the month. The number of people considered unemployed declined by 170,000 from 7,119,000 to 6,949,000...

...hence an unemployment rate of 4.578%...rounded to 4.6%

The average hourly wage rose 0.2% (four cents) to \$16.84. The 4.0% rise during the most recent 12-month period was the largest gain in five years...causing some additional inflation anxiety for the folks at the Federal Reserve.

Declining Disparity

We noted in our August employment update dated September 6, entitled *The 4.6 Million*, that the disparity between the “official” employment survey of 400,000 medium- and large-size businesses and the monthly survey of 60,000 households was unusually wide. We also noted that enormous job gains in the small business sector were not being counted sufficiently.

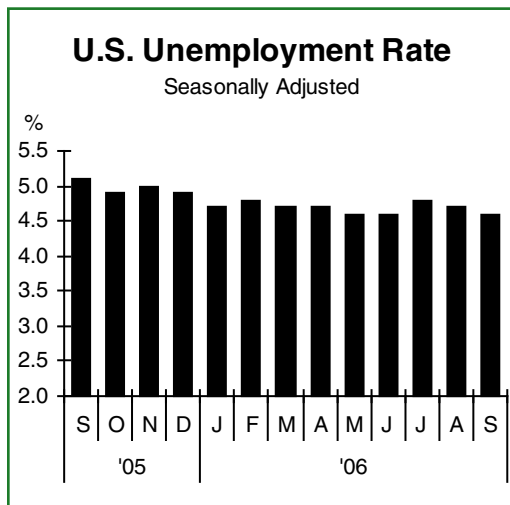


The revision of 810,000 jobs for the 12-month period ending March 2006, an *upward revision of 45 percent*, was a step in the right direction. Even so, the survey difference in estimated job gains over the most recent 60-month period is still nearly 4.1 million jobs...

...additional upward revisions are likely in coming years

Where the Jobs Were

The nation's service providing sector added a weak 62,000 net new jobs in September, led by the addition of 15,000 net new jobs in the health services and education sector. Professional & business services added 12,000 net new jobs. The leisure & hospitality sector added 10,000 jobs during the month. The retail trade and government sectors lost 12,000 and 8,000 jobs, respectively.



Changes in retail trade have been significant over the past 24 months. Better utilization of technology allows retailers to more closely track customer flows, and thus desired staffing levels.

A number of major mergers within the retail industry have also led to store closings and cuts in corporate support staffs (*cnnmoney.com*). Kmart's acquisition of Sears Roebuck, May Department Stores' acquisition by Federated Department Stores, Albertson's purchase by a group that included Supervalu and CVS, and Rite-Aid's likely acquisition of drugstore chain Brooks Eckerd have led to retail job cuts.

Goods producing industries saw a net decline of 11,000 jobs in September, with a loss of 19,000 manufacturing jobs. The construction sector added an estimated 8,000 jobs last month, with gains in the commercial construction sector offsetting losses in residential construction.

Various Jobless Rates

The September jobless rate of men dropped to 3.8%, versus 4.1% in August.

The jobless rate for women rose slightly to 4.2% in September from the prior month's 4.1% rate.

The white jobless rate dipped to 4.0% from the prior month's 4.1% rate, while the jobless rate for Black or African Americans rose to 9.2% in September, a rise from 8.8% in August. The jobless rate for those of Hispanic or Latino ethnicity rose 0.1% to 5.4%.

Of ongoing concern?...The jobless rate for teenagers looking for work, at 16.4% in September, up from 16.2% in August.

Fewer New Bodies

One significant factor of recent years helping to keep the unemployment rate at relatively low levels is the sharp slowing of labor force growth. Such sluggishness is likely to continue in coming years. The U.S. labor force is projected to grow at less than 1.0% annually over the next 20 years, the slowest growth on record.

A positive byproduct of such sluggishness is that fewer new jobs are required monthly to keep the unemployment rate low. During prior years, including those years when the infamous Baby Boom generation was entering the labor force in droves, the economy needed to add roughly 200,000 net new jobs monthly to keep the unemployment rate constant.

Federal Reserve Chairman Bernanke estimates that such a number today is around 130,000 net new jobs. Other estimates suggest as few as 100,000 net new jobs monthly will do the trick.

At the Fed

The majority of financial market players expect the Fed to remain on hold through yearend. A small camp still expects additional Fed tightening, while some expect the Fed to consider cutting its key rate as early as December. Our best guess suggests no change in policy until perhaps 2007's second quarter, with the Fed being able to begin trimming rates at that time.

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