Tea Leaf

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Your guide to understanding today's economy and financial markets

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All that talk about the current or imminent American recession will have to wait a bit longer. The reason? The U.S. economy added an estimated 94,000 net additional jobs during November. A net gain of 94,000 jobs is consistent with slowing—not declining—U.S. economic growth.

November employment gains came in slightly above consensus expectations of perhaps 75,000 jobs. However, a meaningful downward revision of 52,000 jobs to previously reported September's job gains (now estimated at 44,000 net new jobs) gave the recession preachers something to grab on to.

Economic bulls could counter the downward September revision, noting a slight upward revision to October's strong jobs gains, now estimated at 170,000 jobs. Various forecasters had strongly suggested that the surprisingly strong October gain, originally reported on November 2 at 166,000 net new jobs, would be revised sharply lower…

…didn't happen

Despite all of the doomsday talk so prevalent in the national media, the U.S. economy has added 1.3 million net additional jobs so far this year, an average of 118,000 net new jobs monthly. This average is down 38% from the 189,000 monthly average gain in 2006. Also, for the first time in nearly four years, the six-month moving average is less than 100,000 jobs monthly…

…again, consistent with sluggish growth, not recession

Unchanged

Better news also saw the nation's unemployment rate remain at 4.7% for the third consecutive month. The consensus view had the rate moving up to 4.8%. It is likely that further economic slowing in coming months could see the jobless rate at 5.0%. By comparison, the jobless rate matched a five-year low of 4.4% in March of this year.

Where the Jobs Are

As has been the case throughout 2007, employment gains were found primarily in service-providing industries. The services sector, which now accounts for roughly four jobs in every five, saw employment rise by 127,000 net jobs in November. Gains were led by the professional & business services sector and the government sector, both of which added 30,000 net new jobs. Close behind was a gain of 28,000 jobs in education & health services, while the leisure & hospitality sector added 26,000 additional jobs.

Another Cut

The Federal Reserve trimmed its key short-term interest rate for the third time on December 11, with the latest 0.25% cut taking the federal funds rate to 4.25%. The Fed also reduced its less important discount rate.

If global and domestic financial markets continue to struggle with liquidity and confidence, the Fed will likely cut its key rate again on January 30 and/or on March 18.

Retailers added 24,000 additional jobs, the first rise in four months. Retailers typically add jobs during the Holiday season. The employment data is seasonally adjusted to account for these typical changes. The rise suggests perhaps stronger hiring for the Holiday season than many had been expecting.

Goods-producing employers continued to reduce jobs in November, with a net loss of 33,000 jobs. Manufacturing payrolls declined by 11,000 jobs, after declining by 15,000 jobs in October. These declines seem to fly in the face of strong U.S. exports of merchandise goods to the world. U.S. exports of goods are growing at roughly a 15% annual rate.

No surprise here…construction payrolls fell by 24,000 jobs in November, with most of the decline (as one would expect) in residential homebuilding. The

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nation's commercial construction sector continues to add jobs.

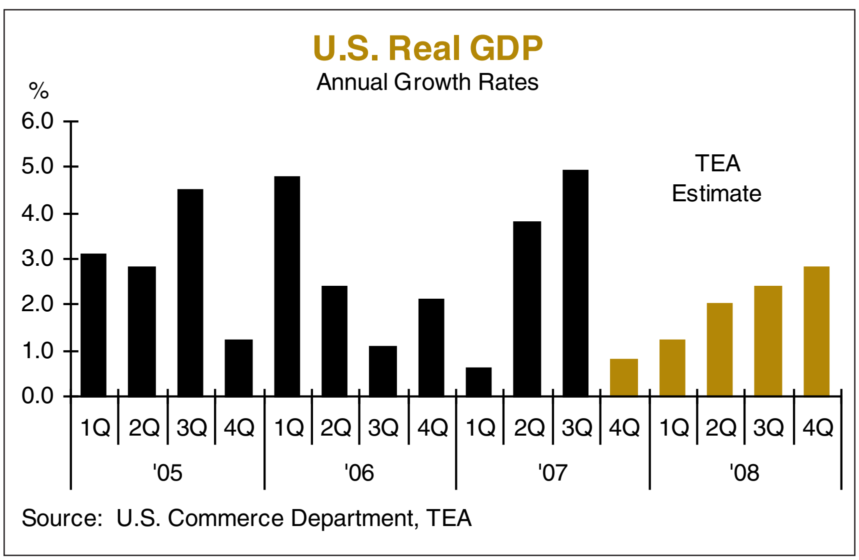
Wages Up

Better news also saw a sharp rise in the average hourly wage. Such wages rose by eight cents (up 0.5%) to an average of $17.63 hourly. Despite a slowing economy, the one-half percent rise in average wages was the largest gain in 19 months.

Hourly wages have risen 3.8% over the most recent 12-month period, outpacing the 3.5% rise in consumer inflation (the CPI) during the latest 12-month period. Solid growth in wages, combined with new job creation, support the view that consumer spending will help in avoiding recession in coming months.

GDP Gyrations

U.S. economic growth has touched nearly all the bases during 2007. The meager 0.6% real (inflation adjusted) annual growth pace of the U.S. economy during 2007's first quarter was the weakest quarter in five years. The economy then grew at a solid 3.8% real annual growth pace during the April-June period.



U.S. economic growth during 2007's third quarter? How 'bout a recently revised 4.9% real annual growth pace, the strongest quarter in five years!

Unfortunately, such solid growth will not continue. Most forecasters see growth in the current quarter within a range of 0.2% to 1.5%. Our number is 0.6%. Most forecasts suggest a modest improvement in 2008's first quarter, followed by slightly better performance as the year continues. Other forecasters speak loudly of recession that is about to engulf the economy.

Not Black or White

It's interesting to follow the intense debate about "recession yes" or "recession no"…

…there is a lot of gray area in between

Consider a driving analogy. The American economy was cruising at perhaps a 60 mile per hour rate during 2003 to 2006. Such speed slowed to about 5-10 miles per hour during 2007's first quarter, only to reaccelerate to 65 mph during the second quarter.

The pedal hit the metal during the third quarter, with the economy running at a 75 mile per hour rate. The current quarter? A lofty 5 miles per hour it seems.

The consensus of forecasters see growth slowly reaccelerating to 15 mph, then 25, then 35, then 45 mph during 2008. The recession advocates suggest our economic vehicle is now slowing to 0, with a high probability of shifting to 5-10 miles per hour *in reverse* early next year…

…in reality, there is not much difference between moving forward or moving backward at a 5 mile per hour clip

As noted previously, what makes the whole growth versus recession discussion somewhat moot is that the entity that makes the speedometer is likely to come back in later 2008 or in 2009 and revise our prior speed estimates.

Jeff

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Conventional wisdom is often neither.

—from *Tea Leaf* reader Michael Wear

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