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Your guide to understanding today's economy and financial markets

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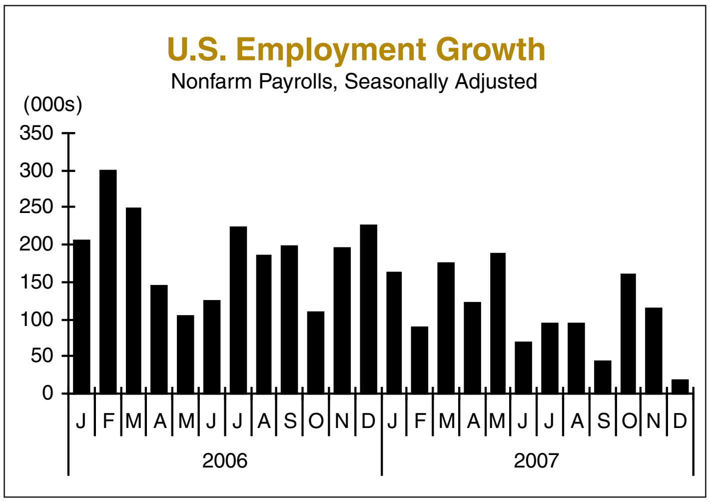
Four-Letter Words

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

A few four-letter words that sum up the overall December jobs report? How 'bout ugly…weak…soft…poor…and shaky (OK, that one was five).

The American economy added a pathetic 18,000 net additional jobs during December, roughly one-fourth of the consensus forecast of 70,000 net new jobs. Offering only modest solace was the 21,000 upward revision to the November employment gain, now estimated at 115,000 jobs.



While the job gain number was worrisome, the sharp rise in the nation's unemployment rate was just plain shocking. The unemployment rate jumped to a two-year high of 5.0% in December, versus the 4.7% level in November.

The 0.3% rise in one month matched October 2001 (following September 11) as the largest monthly gain in nearly 13 years. Not since 1949 has the nation's jobless rate jumped as much in one month without the nation being in recession.

The Numbers

The nation's goods-producing sector lost 75,000 net jobs in December, led by the loss of another 49,000 construction jobs. Total construction sector employment fell by a painful 236,000 jobs in 2007.

The nation's manufacturing sector lost another 31,000 jobs in December. The loss of manufacturing jobs during 2007 was estimated at 212,000 jobs, despite record levels of exports of manufactured goods to a strong global economy.

Service-providing jobs, which account for roughly six of every seven jobs in the U.S. economy, rose by 93,000 new positions in December, led by the addition of 44,000 more jobs in education & health services. Health services added 381,000 net new jobs in 2007.

The professional & business services sector added 43,000 net new jobs in December, while the government sector added 31,000 new jobs. Leisure & hospitality added 22,000 more jobs. The average hourly wage rose 0.4% (seven cents) to $17.71 hourly, a rise of 3.7% over the past 12 months.

5.0%

The sharp rise in the unemployment rate grabbed the headlines following the data release on January 4. We had suggested in September that the jobless rate was likely to move toward the 5.0% level in subsequent months, just not all in one month.

The data source provides more anxiety regarding the employment situation. The unemployment rate estimate is derived from a monthly survey of 60,000 households, known creatively as the "household survey." The employment data is derived from a monthly survey of roughly 400,000 medium- and large-sized businesses, known as the "establishment survey."

The volatile household survey saw an estimated decline of 436,000 jobs in December to 146,211,000 employed people, while the estimated labor force rose by 38,000 people to 153,866,000. The estimated number of unemployed people rose sharply to 7,655,000…hence the 5.0% jobless rate.

Consensus Views

Note that the consensus view of surveyed economists in recent weeks

THREDGOLD ECONOMIC ASSOCIATES

The TEA Company
A Professional Speaking and Economic Consulting Company
1366 S Legend Hills Drive, Suite 150
Clearfield, Utah 84015
801-614-0403
www.thredgold.com

and months has been that the U.S. economy would slow sharply between October 2007 and June 2008, but technically avoid a recession. I am part of three ongoing national economist surveys… those sponsored by Blue Chip Financial Forecasts (monthly, with 48 economists); the National Association for Business Economics (quarterly, with roughly 15 economists); and that of USA TODAY (quarterly, with 56 economists).

The most recent consensus forecast of each source has the same outcome…minimal U.S. growth with no recession. I point this out because misery loves company.

Our View

Given the weakness in the December employment data, it is likely that more and more economists will shift to the now sexy recession forecast…

…for the moment, I will not

Our view of recent months was that the chance of recession was around 30%-40%, a number that data demands to now be around 40%-50%. Further data in coming months will obviously help clear the clouded view.

I may have to move to the "Woe is Me, Recession is Upon Us" camp at some point, noting that my earlier forecast was too optimistic.

Data Noise

Let me point out some "noise" or confusion within the data. The December week during which the data was collected saw an ice storm impacting much of the nation's midsection. Many of the tens of thousands of workers unable to get to their jobs due to the storm would not be counted as employed if they didn't get paid for their missed work *(CNNMoney.com)*. Less important was the estimated 12,000 jobs "lost" as a result of the ongoing writers' strike impacting Hollywood and the nation's TV networks.

So What Does It All Mean?

The weak employment data obviously suggests that the combination of severe housing weakness, fragile and illiquid domestic and global credit markets, $100 oil, and a national media that is happy to constantly gloat about all three conditions, is having an impact on employers. The key will be whether consumer spending softens as much as the recession advocates suggest.

When Will We Know?

It is somewhat amusing to note all of the forecasts of slow growth or recession. As we have shared with our readers before, we won't really know whether or not the U.S. is in recession until likely later this year.

The prior U.S. recession was "officially" noted to have begun in March 2001…a decision rendered by the National Bureau of Economic Research (NBER) in November 2001! In addition, the recession was officially deemed to have ended in November 2001, a decision released in July 2002!

What Can Be Done About It?

Two actions can be taken in coming months to alleviate or minimize a recession. The first will happen. The second will likely not.

More aggressive action by the Federal Reserve seems on tap. Rising speculation has the Fed trimming its key federal funds rate a fourth time on January 30, with the move perhaps an aggressive 0.50% cut, matching an identical cut on September 18. It is also possible that the Fed could cut its key rate BEFORE January 30 as a means of surprising financial markets.

What would help but is unlikely is a perhaps $100 billion fiscal stimulus program. The President may propose a rebate program or a tax cut across all income brackets. The Democrats would likely not support any tax cut that involves higher income people.

I would suggest the Democratic "leadership" (the term is used loosely) would not want to do anything to help President Bush in his final year. After all, Democrats recognize that being in or flirting with recession serves their political interests in November…

…and in D.C. it's all about politics

Jeff

"TEA"ser

It's tough to make predictions, especially about the future.

—Yogi Berra

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Thredgold Economic Associates
1366 S Legend Hills Drive, Suite 150
Clearfield, Utah 84015
www.thredgold.com

Graphics and layout by Kendall Oliphant
Research assistance by Shawn Thredgold