Tea Leaf

…weekly since 1976

Your guide to understanding today's economy and financial markets

March 12, 2008

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Job Sick

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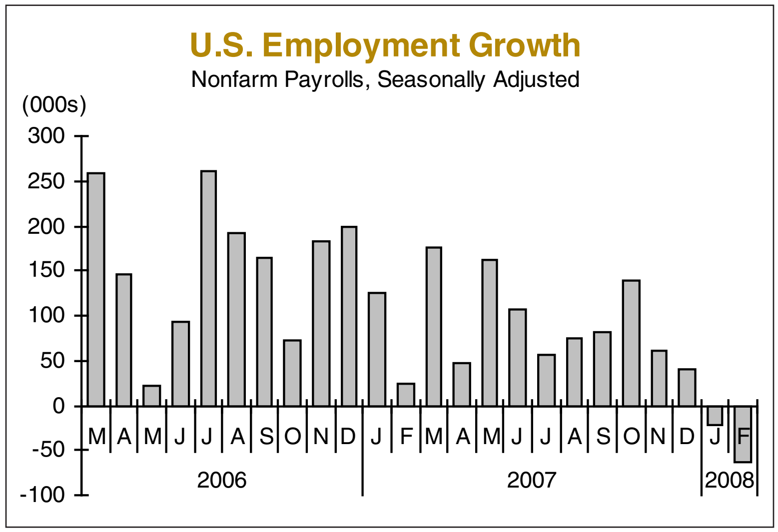
…simply no getting around it

…the February employment data was ugly

…the odds that we are in, or about to enter, a recession have risen

American payrolls during February were estimated to have experienced a net decline of 63,000 jobs, the worst monthly performance in nearly five years, and sharply below the consensus forecast of a rise of 25,000 net new jobs. To add insult to injury, January's initial estimate of a loss of 17,000 jobs was revised slightly lower (as in worse) to a loss of 22,000 jobs.



As the estimates now stand, this was the first time since May-June 2003 we have seen two consecutive monthly declines in employment. December's employment gain, originally reported on January 4 as a rise of 18,000 net new jobs, then revised on February 1 to a stronger rise of 81,000 net new jobs, was again revised on March 7 to a rise of 41,000 net new jobs…

…no comment

The Crystal Ball… A Look Back

A quick peak into prior issues of the *Tea Leaf* notes that we suggested in early September 2007 that the chance of a U.S. recession was around 40%. Issues in early January suggested to us about a 40%-50% chance of recession.

In recent speaking presentations around the nation I took the easy way out, suggesting the odds of recession at 50-50. Based on the employment data of March 7…plus rising anxiety in global financial markets…plus the constant negativity of the national media…plus the current weakness in the stock market…plus oil prices over $100…we would now suggest the chance of recession at perhaps 60%. Note that numerous economists are 100% convinced we ARE already in recession, while others are adamant that recession WILL be avoided.

4.8%

Some "good news" in the report? The nation's unemployment rate declined to 4.8% in February, versus 4.9% in January and a two-year high of 5.0% in December.

Whoops!

Unfortunately, the unemployment (or jobless) rate declined for the wrong reason. The unemployment rate declined 0.1% because of an estimated drop of 450,000 people in the U.S. labor force. Many, if not most, of those leaving the labor force were unable to find work and had stopped looking. Note: a person must be actively seeking employment to be counted as part of the labor force.

…again, not a pretty picture

The Detail

As one might expect, the employment data was quite dismal in its entirety. Goods producing employment fell by 89,000 net positions, with another 52,000 manufacturing jobs lost, the largest monthly decline since July 2003. Construction employment fared poorly as well, with an estimated net loss of 39,000 jobs,

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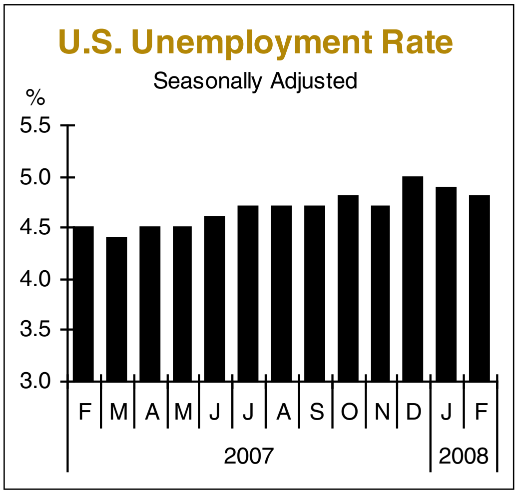
the eighth consecutive monthly decline. What could be ominous in the construction sector is that commercial construction activity—which has been largely solid over the past year—is now seeing more weakness, as well as financing difficulties.



Service providing jobs rose by a soft 26,000 net new positions, led by the addition of 38,000 net new jobs in government, 30,000 new jobs in education & health services, and 21,000 net new jobs in the leisure & hospitality sector. Retail trade employment fell by 34,000 jobs, while professional & business services employment declined by 21,000 positions.

The average hourly wage rose 0.3% (up five cents) to $17.80 hourly. The average hourly wage has risen 3.7% since February 2007, but not enough to keep up with the 4.3% rise in the Consumer Price Index for the 12 months ended in January 2008.

Deceleration

Look at the chart of U.S. employment growth. While substantial monthly volatility has occurred (to say nothing of substantial monthly revisions that make economists less than stable emotionally), there is also a trend in play.

Employment weakness of recent months has actually been underway since monthly employment gains peaked in July 2006. One could, with pencil and a straight edge, draw a downward sloping line of employment deceleration underway during the past 20 months. (Chartists love this kind of stuff). That downward slope may have further to go as multiple economic growth obstacles noted above hinder the economy's ability to grow in coming months.

Four in Favor

Despite all the challenges faced by the American economy, four factors support the more positive view of 1) a recession that can be avoided, or more likely 2) a recession that is limited in both duration and depth.

The **first** of these is additional interest rate cuts by the Federal Reserve. The Fed has already cut its critical federal funds rate five times from the 5.25% level (in place between late-June 2006 and mid-September 2007) to the 3.00% level in place since January 30.

…more ease is coming

The Fed is almost guaranteed to cut the federal funds rate again on or before March 18, with a cut of at least 0.50%. Financial market players expect a seventh cut on or before April 30. If global financial market angst continues to cloud the economic outlook and constrain credit flows, the Fed will deliver even more aggressive interest rate cuts.

Second, the $168 billion fiscal stimulus program will see tens of billions of dollars of payments to most Americans beginning in May 2008. The funds, geared toward stimulating retail spending, will help the economy in a marginal way. Ultimately, the sharp rise in the cap on home loans that will qualify for government purchase will likely contribute more to U.S. economic growth and real estate market psychology. Details are still being worked out.

Third, recent weakness in the stock market will attract more buyers who see downtrodden stock prices of many U.S. companies as a "once in a decade" opportunity to add solid stocks to their portfolios at bargain-basement prices.

Fourth is a global economy that continues to grow at an impressive pace. Such growth, combined with modest additional weakness of the U.S. dollar, provides ongoing opportunities for American companies to sell record levels of goods and services across the global marketplace.

…stay tuned

Jeff

"TEA"ser

Let's have some new clichés.

—Samuel Goldwyn

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