Tea Leaf

...weekly since 1976

Your guide to understanding today's economy and financial markets

May 7, 2008

view previous issues

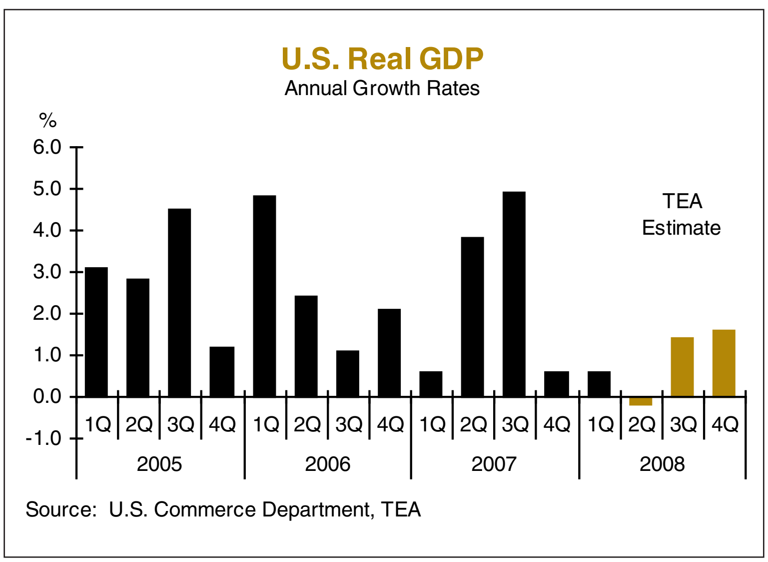
Whither Recession?

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

Perhaps a month ago, forecasting economists were largely split as to whether the U.S. was in, or would soon enter, a recession. The collective view clearly moved into the recession camp on April 4 with a reported decline of 80,000 jobs in March, combined with an additional 67,000 jobs lost over the two prior months…

…we are now back to square one

A combination of slightly stronger-than-expected U.S. economic growth during the January to March 2008 period… combined with a less painful April jobs report than expected (see next page)… combined with the Dow Jones Industrial Average (DJIA) rallying back to the 13000 level…and combined with a modestly stronger U.S. dollar has again moved economic forecasters toward a 50/50 bet as to recession. One could add to this combination the short-term and long-term impact of seven Federal Reserve easing moves since last September.



Source: U.S. Commerce Department, TEA

U.S. economic growth during 2008's first quarter registered a 0.6% real (inflation adjusted) annual rate, slightly stronger than economist expectations, according to the U.S. Commerce Department. The modest 0.6% growth pace matched that of the prior quarter…

…just to keep economists truly humble, the Commerce Department will revise the preliminary 0.6% first quarter growth estimate in both late May and late June as more complete data becomes available

Estimates for current quarter performance range from a 1.0% annual real rate of decline to a 1.0% real annualized gain, with most estimates around a flat growth pace. Most estimates for 2008's second half see positive growth, with the consensus around a 1.5%-2.5% real annual growth rate (we are at the lower end of such forecasts).

Details…Details

The first quarter's meager growth pace was led by rising exports and a modest rise in business inventories of goods. Consumer spending was weak, while real estate investment was downright ugly.

Exports grew at a 5.5% annual pace during the quarter. Consumer spending, which represents more than 70% of the U.S. economy, grew at a 1.0% annual rate, the weakest growth since 2001. Residential construction spending fell at an annual rate of 27.0%, the largest rate of decline since 1981.

Who Says?

The simplistic definition of recession is two consecutive quarters of negative economic growth. In reality, U.S. recessions are formally measured by the National Bureau of Economic Research (NBER), typically 6-10 months after the fact.

One scenario to keep in mind in coming months is that the U.S. Commerce Department could ultimately report *one* or even *no* quarter of economic decline, only to see the NBER officially define that, for example, a U.S. recession formally began in December 2007 or January 2008, with the end date still undefined…

…stranger things have happened

jeff thredgold, CSP
ECONOMIC FUTURIST

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

Job Less

The U.S. Department of Labor reported a net decline of 20,000 jobs in April 2008, the fourth monthly decline in a row. The 20,000 net job loss, however, was much better than the consensus forecast of a loss of 75,000 jobs.

Estimated job losses of the two prior months were revised lower by a combined 8,000 jobs. Employment data is derived from a monthly survey of roughly 375,000 businesses.

The U.S. unemployment rate was 5.0% in April, down slightly from March's 5.1% rate. The current 5.0% jobless rate compares to a 4.5% rate of one year ago.

More Details

Goods-producing employment continued to decline in April, with a net loss of 110,000 jobs. Construction employment fell by 61,000 positions, while manufacturing lost another 46,000 jobs.

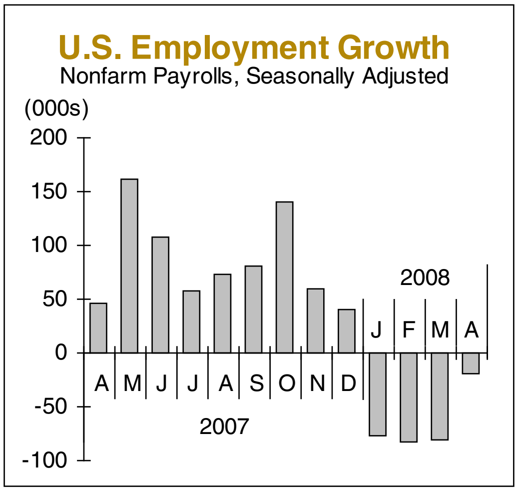
Service-providing employment led the way in April with a rise of 90,000 net new jobs. The education & health services sector added 52,000 net new jobs during the month, while the professional & business services sector added 39,000 jobs. The leisure & hospitality sector added 18,000 net new jobs, while the government sector added 9,000 jobs.

The estimated net decline of 260,000 jobs during 2008's first four months was a painful contrast to the gain of 374,000 net new jobs during 2007's first four months. At the same time, however, an average monthly decline of 65,000 net jobs monthly during the past four months looks quite favorable when compared to an average loss of 181,000 jobs monthly during the eight-month recession of 2001.

Lesser Layoffs

Two reasons might support the fact that job losses have been less painful (so far) this time around. The first is that companies were more selective in adding to payrolls over the past 2-3 years, hence less need to trim payrolls.

A second reason might be that employers are aware that both skilled and unskilled workers are increasingly difficult to find in the economy. As a result, many employers not associated with the housing sector have been willing to keep valuable people on the company tab, hoping that the current period of economic slowing/ recession (pick one) will be limited as to depth and duration.



The average hourly wage rose only 0.1% (one cent) to $17.88 hourly, the smallest gain in two years, and a rise of 3.4% over the past 12 months. The 3.4% rise continues to trail the 4.0% rise in consumer prices during the most recent 12-month period.

The 5.0% April jobless rate came as a surprise, with most forecasters expecting the rate to rise to 5.2% in April from March's 5.1% rate. The declining jobless rate estimate resulted from a surprisingly robust/impressive (pick 'em both) employment gain as calculated from the monthly survey of 60,000 U.S. households.

Education Pays

As nearly always, education level is commensurate with employment. Those with a bachelor's degree or higher had a jobless rate of 2.1% in April, while those with some college or an associate's degree had a 3.9% jobless rate. High school graduates with no college had a jobless rate of 5.0%, while those with less than a high school diploma had a 7.8% jobless rate.

As former Harvard President Derek Bok once stated, *"If you think education is expensive…try ignorance."*

"TEA"ser

If you have a bunch of odds and ends and get rid of all but one of them, what do you call it? Is it an odd or an end?

—*Speaker* magazine

jeff thredgold, CSP
ECONOMIC FUTURIST

THREDGOLD ECONOMIC ASSOCIATES

The *Tea Leaf* is delivered weekly as a link to a PDF file.

To receive the *Tea Leaf* free via email, email your name, email address and "subscribe Tea Leaf" to subscriptions@ thredgold.com

or

fill out the form at www.thredgold.com

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