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Your guide to understanding
today's economy and
financial markets

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Job Shock

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

The U.S. Department of Labor's Bureau of Labor Statistics reported a net decline of 49,000 jobs in May 2008, the fifth monthly decline in a row. The loss was slightly less than the consensus view of a decline of 60,000 jobs. Losses of the two prior months, however, were revised to even greater losses by a combined 15,000 jobs.

Goods-producing employment continued to decline in May, with a net loss of 57,000 jobs. Construction employment fell by 34,000 positions, while manufacturing lost another 26,000 jobs.

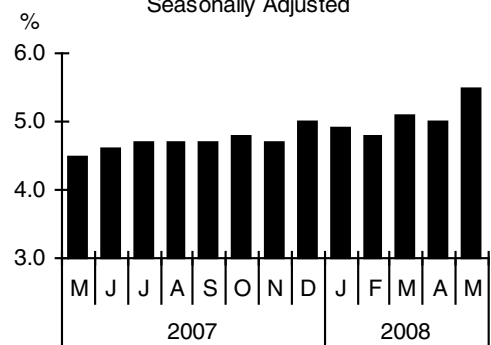
Service-providing employment was weak in May with a rise of only 8,000 net new jobs. The education & health services

5.5%

The most headline grabbing development within the employment report...and the most suspicious... was the sharp rise in the nation's unemployment rate. The U.S. unemployment rate jumped to 5.5% in May, up sharply from April's 5.0% rate.

The 0.5% rise was the largest monthly increase since February 1986, a period of more than 22 years. The 5.5% rate was also the highest since October 2004. The current 5.5% jobless rate compares to a 4.5% rate of one year ago.

U.S. Unemployment Rate
Seasonally Adjusted



The unemployment rate spiked because the estimated civilian labor force jumped by 577,000 people in May. This rise, combined with an estimated decline of 285,000 employed people as derived from the household survey of employment, led the number of people considered unemployed to jump by 861,000 during the month. Total unemployment is now estimated at 8,487,000 people.

Much of the increase in the jobless rate seems tied to faulty seasonal adjustments which did not accurately account for teenagers and college graduates entering the labor force as high school and college classes ended. Roughly half of the rise in the labor force was teenagers.

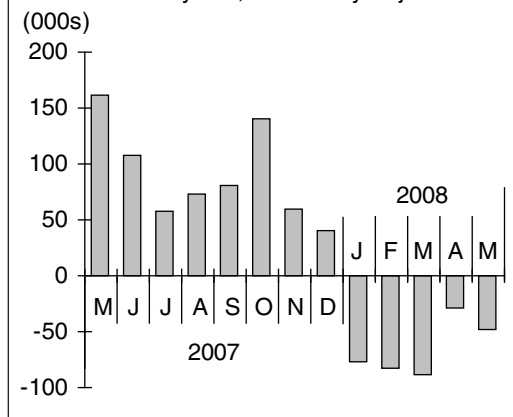
The Bureau of Labor Statistics routinely modifies economic data to account for school ending for millions of students; the return to school of millions of students in the fall; shifting patterns of agricultural workers; holiday season job gains and later eliminations, etc. As changes take place within the economy, such as the move to more year-round schools in many communities, these seasonal adjustments can lack in accuracy.

Assuming that part of the spike in the unemployment rate was tied to this less-than-perfect adjustment, a lower unemployment rate during June is entirely likely when the data is reported on July 3. An economist at Nomura Securities International suggested that May's 5.5% rate was as much as 0.3% higher because of the school impact. Other economists suggested that the nation's unemployment rate has been somewhat underestimated in recent months...

...ohhhhhh, the perils of forecasting

U.S. Employment Growth

Nonfarm Payrolls, Seasonally Adjusted



sector added 54,000 net new jobs during the month, while the professional & business services sector lost 39,000 jobs.

Included within the 39,000 loss was a decline of 30,000 temporary ("temp") jobs. These jobs have declined by 106,000 positions so far this year. Many employers will tend to let "temp" workers go in times of economic slowing or recession before letting more permanent workers leave.

The government sector added 17,000 net new jobs during the month, while the leisure & hospitality sector added 12,000 jobs. Retail trade jobs fell by 27,000 positions during the month.

As Compared To...

The estimated net decline of 324,000 jobs during 2008's first five months was a painful contrast to the average rise of 734,000 net new jobs during the first five months of 2006 and 2007. The 324,000 employment decline is also the worst start for a year since 2002, when the American economy was still dealing with the prior year's recession. However, the average loss of 65,000 jobs monthly during 2008's first five months was roughly one-third of the 181,000 average monthly job losses during the 2001 recession.

The average hourly wage rose 0.3% (five cents) to \$17.94 hourly, a rise of 3.5% over the past 12 months. The increase trails the latest 12-month rise in the Consumer Price Index of 3.9%.

Multiple Rates

Other employment data within the report was also of concern. The unemployment rate of adult men rose to an estimated

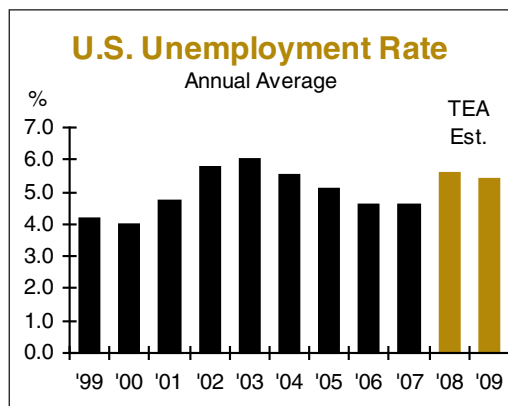
4.9% in May from 4.6% in April. The unemployment rate of adult women rose more sharply to 4.8% in May from April's 4.3% rate.

The estimated unemployment rate for teenagers jumped from 15.4% in April to 18.7% in May, a single-month rise of 3.3%. The unemployment rate for workers ages 20 to 24 rose from 8.9% in April to 10.4% in May (see discussion in box on page 1).

The unemployment rate for Whites rose from 4.4% to 4.9%, while the jobless rate for Blacks or African Americans rose sharply from 8.6% in April to 9.7% in May. The estimated jobless rate for those of Hispanic or Latino ethnicity was unchanged at 6.9%.

Market Anxiety

The spike in the nation's unemployment rate, mixed with saber rattling by an Israeli government official who said that an attack on Iran's nuclear facilities was "unavoidable," combined to spoil the day on Wall Street last Friday, with the Dow down nearly 400 points. In addition, a sharp two-day rise in oil prices to nearly \$140 per barrel, combined with a statement from the head of the European Central Bank (ECB) that an interest rate hike or two may be necessary to deal with higher inflation (thus taking the euro higher and the dollar lower), also contributed to Friday's glum performance in stocks.



Developments earlier this week saw oil prices lower and stock prices higher, with Wall Street investors and traders on pins and needles as to what else could jump from the back pages to the headlines in coming days.

Wall Street...not a place for the faint hearted...

"TEA"ser

The 50-50-90 rule: Anytime you have a 50-50 chance of getting something right, there's a 90% probability you'll get it wrong.



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