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Your guide to understanding
today's economy and
financial markets

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Not a Pretty Picture

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

August employment data was simply painful...and one of the strongest signals yet that the U.S. economy is very likely in recession. In addition, the Democratic ticket received more ammunition to use against its Republican counterpart.

Jobs Lost

The American economy lost another 84,000 jobs in August, the eighth consecutive month of decline. The August decline was slightly more than the consensus view of a 75,000 job loss. Adding insult to injury was revised data indicating an additional 58,000 jobs were lost in the two prior months.

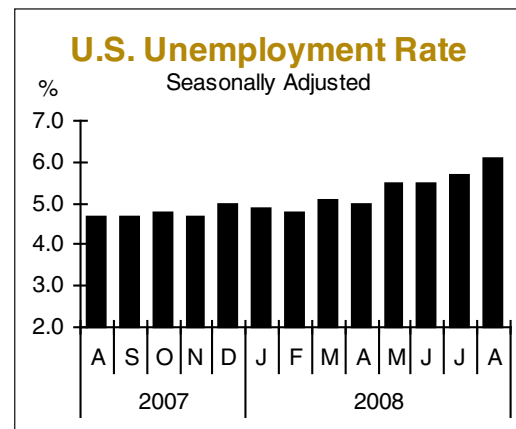
The U.S. economy has now suffered a net decline of 605,000 jobs during 2008, an average loss of 76,000 jobs monthly. By comparison, the U.S. economy added 1.1 million net additional jobs during 2007 and roughly seven million net additional jobs between 2004 and 2006.

The current average monthly loss of 76,000 jobs during 2008 is less than half the average loss of 181,000 jobs monthly during the 2001 recession. Such news, however, is of little consolation to those whose jobs have disappeared this year.

Rate Shocker

While the loss of 84,000 jobs during August was very close to the consensus forecast, the spike in the nation's unemployment rate was wholly unexpected. The nation's unemployment

rate reached a five-year high of 6.1% in August, up sharply from the 5.7% jobless rate during July and the 4.7% jobless rate a year ago.



Even more ominous was the makeup of the newly unemployed. The jobless rate had previously spiked higher last May to 5.5% from April's 5.0% rate. That rise was primarily associated with a sharp increase in the number of teenagers entering the labor force during the summer break from high school and college.

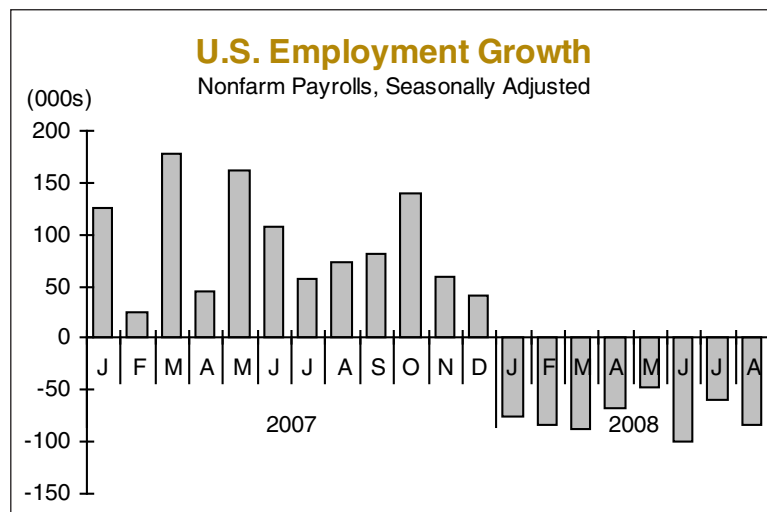
The August rise seems more associated with workers of all ages, including many over the age of 45. The nearly 600,000 people added to the unemployment rolls in August included almost as many college graduates as those with only a high school degree (*The New York Times*).

Goods

The nation's goods production

sector recorded a net decline of 57,000 jobs in August. Manufacturing was hit hard again with the loss of another 61,000 jobs, following a loss of 38,000 jobs in July. Job losses in auto manufacturing and auto parts industries accounted for nearly two-thirds of the August decline.

Losses in other manufacturing



industries have been a bit puzzling this year. The solid growth in U.S. exports of manufactured goods to the global community has been, along with the agricultural sector, the economy's bright spot this year.

The nation's construction sector lost another 8,000 jobs in August, the 14th consecutive monthly decline. Since peaking in February 2006, the nation's construction sector has suffered a net decline of 388,000 jobs. Additional pain to be incurred in the American housing sector suggests that more jobs will be eliminated over the balance of the year. Better news found the mining sector added 12,000 net new jobs in August.

...and Services

The nation's service sector also performed poorly in August, with a net loss of 27,000 jobs. Professional & business services, a stalwart during most months, lost 53,000 jobs in August including a decline of 37,000 "temp" jobs. The retail trade sector lost 20,000 jobs during the month, with 70% of the decline occurring in motor vehicle and auto parts dealers. "Back to school" sales for retailers were mostly weak.

Better news was found in the education & health services sector, which added another 55,000 jobs. The health care sector alone has added 367,000 jobs during the past 12 months. The government sector added 17,000 net additional jobs during August, while the leisure & hospitality sector lost 4,000 jobs.

Greater Joblessness

Rising unemployment was standard fare for nearly all in August. The jobless rate for adult men rose to 5.6% in August from 5.3% in July. The jobless rate for adult women rose sharply to 5.3% from July's 4.6% rate.

The jobless rate for Whites rose from 5.1% in July to 5.4% in August. The jobless rate for Blacks or African Americans rose sharply to 10.6% in August from 9.7% the prior month. The unemployment rate for workers of Hispanic or Latino ethnicity rose to 8.0% in August, up from July's 7.4% rate.

The Asian jobless rate rose from 4.0% in July to 4.4% in August. The only group

registering a decline in unemployment was teenagers, with the jobless rate declining from July's 20.3% to 18.9% in August.

Wages again failed to keep pace with inflation. The average hourly wage rose seven cents (up 0.4%) to \$18.14. The rise of 3.6% during the past 12 months trails the 5.6% rise in the Consumer Price Index for the most recent 12-month period. However, the sharp decline in energy and commodity prices of the past two months...should it continue or just stabilize...will help unwind some of the inflation pressures which worsened in recent months.

Political Fodder

A U.S. jobless rate now beginning with a "6" is "good" political news for Democrats, while clearly worrisome for the Republicans. Expect to hear Obama-Biden frequently referencing the 6.1% jobless rate...again at a five-year high... as just one more indication of failed Republican leadership of recent years.

McCain-Palin will clearly hope to see some improvement in the U.S. jobless rate when the September employment data is released on October 3—the last report before the November 4 elections.

Recession Measure

U.S. economic growth during the July-December 2008 period will very likely trail the 2.1% real (inflation adjusted) annualized growth pace during 2008's first half. A quarter or two of negative performance of the U.S. economy could easily occur during the next four quarters.

As we have noted frequently, the official "scorekeeper" of the economy has remained silent to this point. The National Bureau of Economic Research (NBER) does not define a recession in terms of two consecutive quarters of decline in real GDP as does the media.

Rather, an NBER-defined recession is "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." An announcement that a recession likely started around the end of 2007 could come at any time.



"TEA"ser

I never drink water because of the disgusting things that fish do in it.

—W.C. Fields



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