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Your guide to understanding  
today's economy and  
financial markets

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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](http://www.thredgold.com)

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# Waters Uncharted

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

Developments of the past few days (and hours) continue to fall into the “never been done before” and “uncharted waters” file of the Federal Reserve and other central banks around the world. The same could be said of the U.S. Treasury Department and its counterparts around the globe.

For the first time EVER, the Federal Reserve participated in a coordinated and near-simultaneous interest rate cutting action with other major central banks. The Federal Reserve cut its key federal funds rate target to 1.50% from the 2.00% rate in effect since April 30.

## Action vs. Inaction

Whether these aggressive monetary policy actions will be effective in curtailing what is now a global financial panic is unclear. However, these actions, combined with other aggressive moves by central banks and the U.S. Treasury (and equivalents) around the globe is a far cry better than simply sitting back (as some would strongly suggest) and letting financial markets work things out.

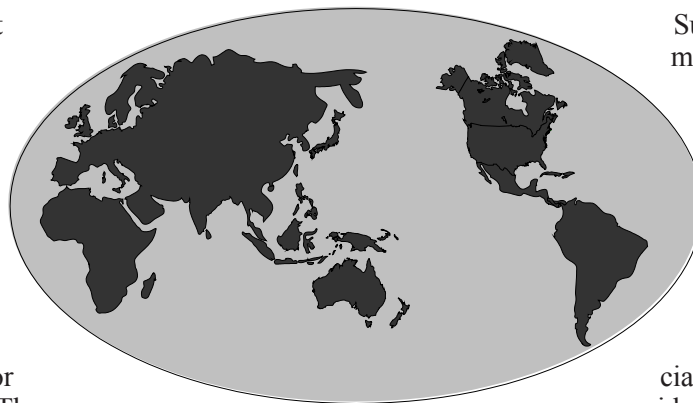
We have been there before when the fledgling Fed and other central banks largely sat back and did nothing...it is known to us as the Great Depression.

As noted previously, Federal Reserve Chair Ben Bernanke and U.S. Treasury Secretary Paulson have taken steps and implemented aggressive strategies in recent days, weeks, and months that are nowhere to be found in their operating manuals. Similar moves are now perhaps belatedly being undertaken by their counterparts around the world.

## Two Markets

We have two distinct financial markets in the world today. The equity, or stock

market, is one where the typical U.S. or foreign consumer can look at the Dow average (the U.S.) or the Nikkei 225 index (Japan) or the Hang Seng index (Hong Kong) or the DAX index (Germany) or FTSE 100 (United Kingdom) and get a “feel” as to how stocks are performing.



Such a simple measure is not available in the credit markets. The typical consumer doesn't really understand how commercial paper issuance provides the funding for thousands of global companies, or how the issuance of BANs and RANs and TANs might be used by municipalities to temporarily fund their operations.

Consumers many times “see” problems in credit markets when they can't get a mortgage or an auto loan or have a long-standing loan for their small business suddenly curtailed by their lender. They “see” problems when they can't get funding to add to inventory for the Holiday season. They “see” problems when the required down payment or documentation for a home loan is much more challenging than before.

Credit markets are all about confidence...confidence that if you lend or invest money with the investment bank across the street or “across the pond” you will get your money back...confidence that if you put money into a money market fund or other short-term investment that you will be able to get your money back... confidence that if you buy a bond issued by a major corporation or government entity that you will be able to sell that investment later should you choose to in a viable and liquid marketplace...

...It is that lack of confidence that is a grave and major threat to the global community today

# Job Drop

If misery loves company then the September U.S. employment report should have lots of friends. The 159,000 drop in total estimated employment was the largest monthly loss since March 2003, and the ninth consecutive monthly decline.

The sharp decline in employment exceeded the roughly 105,000 loss expected by economists. The September fall was also more than twice the average monthly loss of 75,000 jobs during 2008's first eight months.

Better news saw the nation's unemployment rate remain at 6.1%, although still a five-year high. Unfortunately, the jobless rate is likely to move sharply higher in coming months as the employment impact of the domestic and global credit freeze leads to thousands of additional layoffs and cutbacks.

## A Painful Array

Employment weakness in September was pervasive, with nearly all major employment sectors seeing job losses. The nation's goods production sector lost 77,000 jobs, with another 51,000 decline in manufacturing employment. The sector has now lost 442,000 jobs this year.

The nation's ravaged construction sector lost 35,000 jobs during the month. Mining saw the addition of 8,000 jobs during September.

The nation's service providing sector, wherein nearly 85% of all current jobs are found, lost 82,000 jobs last month. Retail trade lost 40,000 jobs, while the professional & business services sector lost 27,000 positions. The leisure & hospitality sector lost 17,000 jobs.

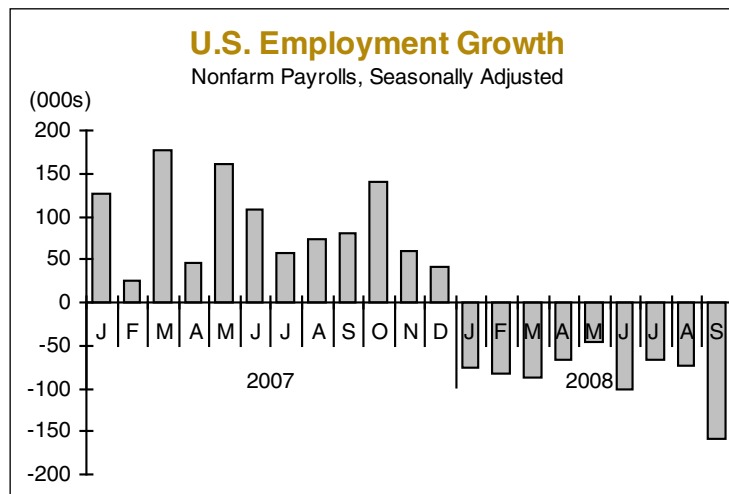
Financial services employment fell by 17,000 in September. This sector, with many jobs tied to mortgage finance, has seen total employment drop by 172,000

jobs since employment peaked in December 2006 (*The New York Times*). Education & health services added 25,000 jobs during the month, while government added 9,000 net new workers.

The average hourly wage rose a modest three cents (up 0.2%) to \$18.17 hourly. The 3.4% rise over the past 12 months continues to trail the comparable rise in inflation pressures, although lower commodity (including oil) prices will lead inflation pressures lower in coming months.

Total U.S. employment has now fallen by 760,000 jobs so far this calendar year. This loss compares to a gain of 1.1 million net new jobs in 2007 and the addition of nearly seven million net new jobs during 2004-2006.

**Since World War II, the nation's unemployment rate has risen only twice in the year leading up to the elections. In both cases, the incumbent party lost**



## Presidential Politics

Needless to say, the ugly U.S. employment data, combined with the global credit crisis and U.S. recession, will help the Obama camp in early November. Right or wrong, a President and their party usually get the credit...or the blame...for good or bad economic performance leading up to national elections.

Since World War II, the nation's unemployment rate has risen only twice in the year leading up to the elections. In both cases, the incumbent party lost ([www.bloomberg.com](http://www.bloomberg.com)).

## "TEA"sers

### Product Labels

On a shower cap: Fits One Head

On Christmas lights: For Indoor and Outdoor use ONLY!

On a Superman costume: The wearing of this garment does not enable one to fly



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Thredgold Economic Associates  
1366 S Legend Hills Drive, Suite 150  
Clearfield, Utah 84015  
[www.thredgold.com](http://www.thredgold.com)

Graphics and layout by Kendall Oliphant  
Research assistance by Shawn Thredgold