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Your guide to understanding today's economy and financial markets

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# **Labor Pain**

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

What few remaining doubts existed about the U.S. economy being in a protracted and painful recession fell by the wayside on Friday, November 7 with the release of the October employment report. Not only was the October employment data ugly, but downward revisions to August and September job data only added to the pain.

The U.S. economy lost an estimated 240,000 jobs in October, roughly one-third more than expected. Adding insult to injury were revisions to estimated job losses of the two prior months, which now suggest an additional 179,000 people lost jobs during those months.

Completing the hat trick of ugly employment data was a sharp rise in the nation's unemployment rate from 6.1% in September to a 14-year high of 6.5% in October. Even worse is the likelihood that the American jobless rate could approach 8.0% during 2009.

The nation's *service providing* sector, which accounts for six of every seven American jobs, also got hammered during the month with a loss of 108,000 jobs. The professional & business services sector lost 45,000 positions, while the leisure & hospitality sector lost 16,000 jobs.

The retail trade sector lost 38,000 iobs during October, an ominous sign as the Holiday Season begins. Estimates of a strong Holiday retailing season are somewhere between zero and none, with weak retail sales expected.

Better news saw the government sector add 22,000 net new jobs during the month, with most of these in local government. The education & health services sector added 21,000 net new positions.

The average hourly wage rose 0.2% (four cents) to \$18.21 hourly, a rise of 3.5% over the past 12 months. While the 3.5% rise trails the 4.9% jump in the

> Consumer Price Index over the most recent 12-month period, such is unlikely to be the case for long.

#### **U.S. Employment Growth** Nonfarm Payrolls, Seasonally Adjusted (000s)200 150 100 50 0 -50 -100 2007 -150 -200 -250 -300

#### **Shared Weakness**

As in recent months, job losses were across the board. The nation's goods production sector continued to hemorrhage, with the loss of another 132,000 jobs. Manufacturers cut jobs for the 28th consecutive month, with the loss of another 90,000 jobs. The strike at Boeing, now settled, added to the large loss. Construction employment fell by 49,000 jobs during the month, while natural resources added 7,000 jobs.

#### Inflation Down

The rapid downward move of oil and other commodity prices will have a positive impact on reducing inflation pressures in coming months, just as oil and commodity price hikes aggravated inflation during much

of 2008. Two recent surveys of veteran (meaning old) economists conducted by USA TODAY and Blue Chip Financial *Forecasts* that I participate in foresee consumer prices in 2009 rising 2.0% and 1.8%, respectively. Note that there are as many concerns about deflation in 2009 and 2010 as there are about inflation.

The U.S. economy has lost nearly 1.2 million net jobs during 2008, with more than half of these losses during the past

three months. Employment data of coming months could be equally bleak.

U.S. economic output (GDP) declined at a 0.3% real (inflation adjusted) annual rate during the third quarter. Most estimates for the current quarter suggest economic contraction at a real annual rate of around 3.0%-4.0%.

Many estimates for 2009's first half suggest additional, if less painful, contraction. As before, most forecasters see modest economic growth during next year's final six months.

#### 10 and Out?

A rising number of forecasters expect the Federal Reserve to trim its key interest rate from what is already a 50-year low of 1.00% to (most likely) 0.50% on or before December 16, the date of the next regularly scheduled FOMC meeting.

As noted before, another cut will do little for the economy other than provide

some temporary warm & fuzzy feelings for investors and consumers. The problem in recent months has not been the *price* of money (the interest rate). The problem has involved the *availability* of money.

#### 2009 Turn?

The deleveraging of the financial "house of cards" constructed in the U.S. and around the world over the past 5-10 years is a scary and highly uncomfortable process. Additional pain is coming.

However, a major change in political leadership, a rising sense that housing prices will stabilize by mid-2009, and a view that positive (if minimal) economic growth will return in 2009's second half gives us something to hang our hats on...

...keep your fingers crossed

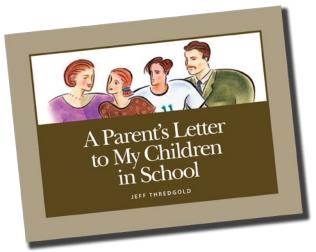


# **A Thanksgiving Special**

As you gather with your family this Thanksgiving season, consider giving a copy of Jeff's *A Parent's Letter to My Children in School* to each of your children or grandchildren.

Fourteen years ago, this letter of advice to students was published in Jeff's weekly newsletter as "A Father's Letter to My Children in School" and the response was amazing. We had dozens of requests for permission to reprint more than 150,000 copies.

Due to the strong demand for this piece, we published it as a soft-cover book, then added illustrations in this latest edition. *A Parent's Letter to* 



**My Children in School** is especially tailored for students from junior high through college, with practical and timely advice about school, learning, and life. But its simple wisdom spans the generations and would benefit all children (and children at heart)—from 8 to 88! Visit <a href="www.parentsletter.com">www.parentsletter.com</a> to take a look inside.

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### "TEA"ser

Politics is supposed to be the second oldest profession.
I have come to realize that it bears a very close resemblance to the first.

-Ronald Reagan





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