Tea Leaf

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Your guide to understanding today's economy and financial markets

December 10, 2008

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Job Ugly

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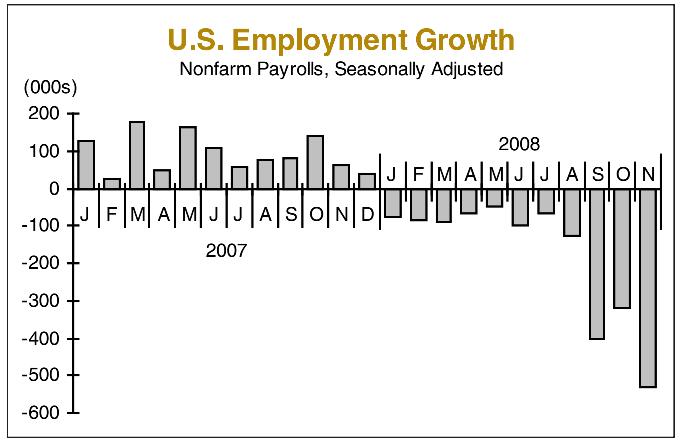
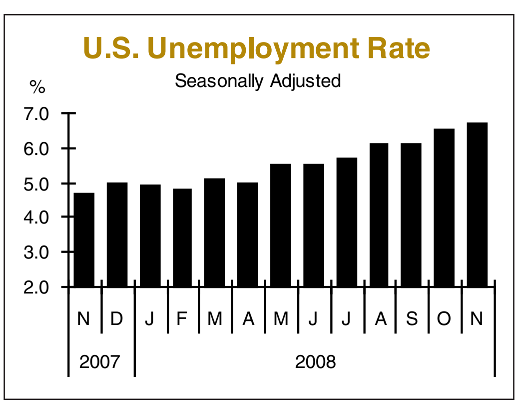
Monthly employment data released by the Bureau of Labor Statistics can be viewed at times as better than expected, in line with expectations, or worse than expected. On rare occasions it is just plain ugly, as was the November data released on December 5.

- The U.S. economy lost an estimated 533,000 jobs during November, the worst monthly performance in 34 years
- Previously reported employment losses in September and October were revised higher (meaning worse) by another 199,000 jobs
- The nation's unemployment rate rose to 6.7% in November, the highest level in 15 years
- More than 10.3 million Americans were unemployed in November, the highest total in 25 years
- Reported job losses totaling more than 1.9 million during 2008's first 11 months exceed total job losses during the prior recession in 2001
- Job losses to be reported for December could be just as bad as in November
- Total job losses of 2.25-2.50 million during 2008 could be the worst year ever

The 533,000 reported employment decline during November was nearly 200,000 more than expected. Major downward revisions to the two prior months simply added insult to injury.



U.S. Employment Growth
Nonfarm Payrolls, Seasonally Adjusted



U.S. Unemployment Rate
Seasonally Adjusted

Across the Board

Job losses were standard fare across the broad U.S. economy in November. The nation's embattled goods production sector got hammered, with a loss of another 163,000 jobs. The manufacturing sector lost another 85,000 jobs, while the construction sector lost another 82,000 positions.

The nation's service-providing sector, which accounts for 85% of all American employment, lost 370,000 jobs during the month. Without combing through musty and dusty historical data, I suspect few, if any, months have EVER been worse for the services sector.

Professional & business services lost 136,000 jobs during the month, while retail trade lost 91,000 jobs. The leisure & hospitality sector lost 76,000 positions. Better news saw the education & health services sector add 52,000 jobs, while government added 7,000 new positions, primarily in local education.

Wrong Reason

On the surface, the rise in the unemployment rate to 6.7% in November, versus 6.5% in October, was good news. After all, the consensus view was for the rate to move to 6.8%. However, the rate rose less than expected because an estimated 422,000 people (net change) left the labor force during November, and were no longer considered unemployed.

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Without that factor, the unemployment rate would have been very close to 7.0%.

An aside: Major revisions to formerly announced economic data raise havoc with the long-term health of economists. I'm too old to get a real job.

Rising Wages

Better news saw the average hourly wage rise a greater-than-expected 0.4% (seven cents) to $18.30 hourly. The 3.7% rise of the past 12 months matches an identical rise in the Consumer Price Index for the most recent 12-month period.

The gain in wages in coming months, while likely to slow slightly, should soon surpass the rise in consumer inflation. The plunge in oil and other commodity prices should ultimately see the CPI rise 2.0%, or less, during 2008. As recently as late last summer, the 12-month rise was approaching 6.0%.

A Long Recession

We have suggested frequently in recent months that the National Bureau of Economic Research (NBER) would soon announce that a recession "officially" began around the end of 2007 or early in 2008. They finally made that call.

The Business Cycle Dating Committee of the NBER, the "official scorekeeper" of the U.S. economy, announced on December 1, 2008 that a peak in economic activity occurred in the U.S. economy in December 2007. As a result, the current U.S. recession officially began in December 2007.

The national media typically describes a recession as two consecutive quarters of declining GDP. According to the NBER, however, a recession "is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators."

The current recession, now in its 13th month, is likely to be the longest since the Great Depression. The current recession already exceeds the duration of 8-month recessions during July 1990 to March 1991 and March 2001 to November 2001.

Consensus estimates of economists in recent weeks suggested a return to modest, but positive, U.S. economic growth was likely during 2009's second half. Such a development would see the current recession last 18-20 months. However, the severity of employment losses announced on December 5, combined with highly anxious domestic and global credit markets, suggest many forecasts of economic recovery could be stretched out by a quarter or two.

One More Time

Greater-than-expected job losses during November, combined with major upward revisions to previously announced job losses in September and October, have also heightened the odds that a tenth and perhaps final interest rate cut by the Federal Reserve could occur on or before December 16, 2008. The Fed's critical federal funds rate is already at a 50-year low of 1.00%. The Fed could move to 0.50%, or even 0.25%, on December 16.

Direct Correlation?

Take a gander at the monthly employment chart. Note the severity of job losses between September and November, as compared to prior months.

In my mind there is a direct correlation between much uglier employment losses of the past three months and the dramatic announcement and warning by U.S. Treasury Secretary Paulson and Federal Reserve Chair Bernanke over the weekend of Friday, September 18 to Sunday, September 20 that "the sky was falling."

As you will recall, this was the time when the Treasury Secretary first requested $700,000,000,000 to buy "toxic" real estate securities from the portfolios of commercial and investment banks to help stabilize the economy. This was the time when financial market stresses that were primarily a Wall Street problem up until then suddenly became a Main Street issue as well.

To their defense, financial markets in prior weeks were dealing with one failure or near failure of massive financial firms after another…Freddie Mac, Fannie Mae, AIG, and Lehman Brothers come to mind. Whether the dramatic announcements in mid-September of Secretary Paulson and Chairman Bernanke were too emotional, too scary, and simply too much will ultimately be left to the historians…

Jeff

"TEA"ser

If only God would give me some sign…a clear sign! Like making a large deposit in my name at a Swiss bank.

—Woody Allen

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