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Your guide to understanding
today's economy and
financial markets

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Hammered

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More of the same...

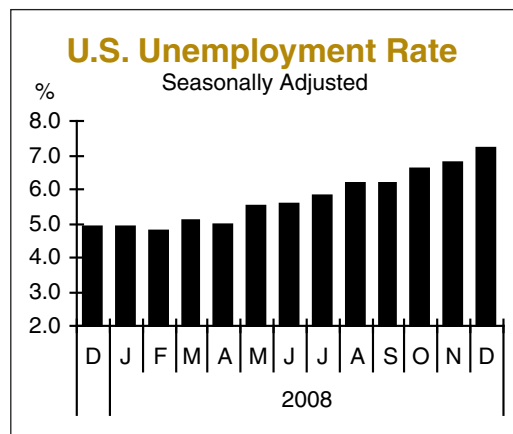
The December employment report continued the losing streak in place throughout 2008, with the net loss of another 524,000 jobs, matching the consensus view of economists. Adding insult to injury were revisions to October and November employment data, noting the loss of an additional 154,000 jobs during those months.

Calendar year 2008?
A net loss of nearly 2.6 million jobs, the worst performance since 1945...a period of 63 years.

Equally disconcerting was the spike in the nation's unemployment rate from a revised 6.8% in November to a 16-year high of 7.2% in December.

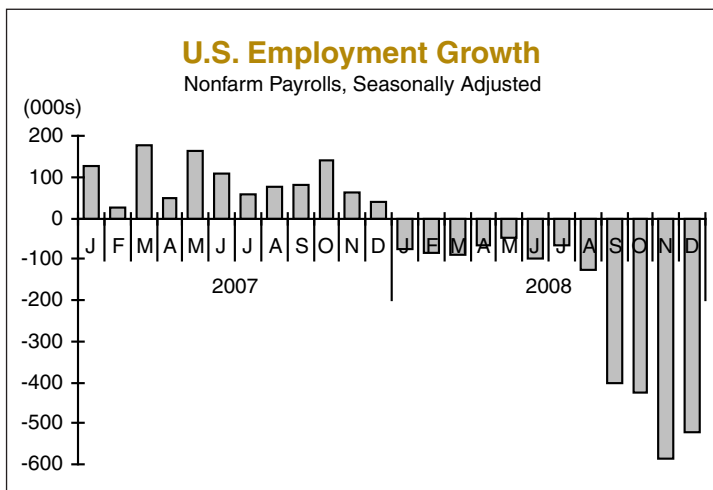
Across the Board

If misery loves company, there was plenty to go around in December. The nation's goods production sector lost another 251,000 jobs in December. The manufacturing sector lost another 149,000 jobs, the largest monthly loss since during the recession of 2001. The nation's construction sector lost another 101,000 jobs. The U.S. Labor Department currently estimates the unemployment rates within these two sectors at 15.3% and 8.3%, respectively.



The nation's much larger service providing sector, where six of every

seven jobs are found, also got hammered in December, with the loss of another 273,000 jobs. The professional & business services sector lost another 113,000 jobs, while retail trade lost another 67,000 positions. Estimated unemployment rates in these two sectors?...8.1% and 7.2% (includes wholesale trade), respectively.



Leisure & hospitality lost 22,000 jobs (jobless rate estimated at 9.5%). Better news saw the education & health services sector add another 45,000 jobs, while the government sector added 7,000. Jobless rates were estimated at 3.8% and 2.3%, respectively.

Jobless Jump

As noted, the nation's unemployment rate jumped to 7.2% in December, up sharply from November's 6.8% rate. The rate could approach 8.5% or 9.0% by the end of the year. More pessimistic forecasters suggest a double-digit unemployment rate is possible early next year.

More than 11.1 million American workers were considered unemployed in December—the highest total in 25 years—and a rise of 3.6 million from December 2007, the official date wherein the current recession began. The number is headed higher.

The "Underemployed"

Of greater concern was the sharp rise in the "underemployment rate." This number, which draws more attention now than at any time since its recordkeeping began in

No Rosy Scenario

Anyone trying to understand and predict the U.S. economy for a long time will remember the days of "Rosy Scenario." The Reagan Administration was somewhat notorious for providing wildly optimistic economic and financial forecasts for the next year or two. Such forecasts had little to no credibility on Wall Street. More realistic and more credible forecasts began to emerge from Washington, DC during the past 10-15 years.

The recent forecast from the Congressional Budget Office (CBO) was almost too negative. The CBO projects that the U.S. economy will contract at a 2.2% real (after inflation) annual rate during 2009. Most private sector forecasts suggest a lesser decline. The forecast also sees the U.S. economy leaving recession at mid-year 2009 and expanding at a modest 1.5% real annual rate during 2010.

The CBO also forecasts that the budget deficit for fiscal year 2009 (which began last October 1) will reach \$1.2 trillion, even before any additional stimulus is requested by the new President, and presumably approved, in coming weeks. This number, unfortunately, seems accurate.

The CBO also forecasts the unemployment rate will reach 9.2% in early 2010, with average home prices likely to decline another 14% over two years. The latter number seems a bit too painful when considering the declines that have already occurred.

1994, was reported at 13.5% in December, up sharply from November's 12.6% rate.

This unemployment measure includes those measured as unemployed, those discouraged workers who have left the labor force and are no longer counted as unemployed, and those people working part-time who would prefer full-time hours. It will also move higher during the year.

Real Wage Gains

Better news was also seen in regard to the rise in hourly earnings. Workers' average hourly earnings rose an estimated five cents (up 0.3%) to \$18.36. The 3.7% rise in hourly earnings during the past 12 months compares favorably to plunging consumer inflation.

As recently as last summer, the rise in the Consumer Price Index for the latest 12-month period was approaching 6.0%.

The violent plunge in oil and other commodity prices has now seen the CPI rise 1.1% during the latest 12-month period, leading to sizable real hourly wage gains. In fact, the widely expected fall in December consumer inflation to be reported on Friday, January 16 could see consumer inflation during 2008 near zero...nada...zilch.

More Losses in 2009

What is likely to be the longest and possibly the deepest recession since the Great Depression will see additional job losses in 2009, most in the year's first six months. The Conference Board is forecasting the net loss of another two million jobs this year. Other forecasts range from one million to as many as three million more lost jobs.

More optimistic forecasters suggest that much of the employment pain is behind us, with most companies that were compelled to cut jobs doing so in late 2008. Where we go from here in terms of additional job losses remains critically tied to developments in housing, credit markets, and consumer and corporate confidence...or lack thereof...

...In any event, 2009 will not be pretty

Presidential Scorecard

The sharp plunge in U.S. employment of the past four months will add additional tarnish to outgoing President Bush's legacy...

The President will leave office with an unemployment rate of 7.2%, versus the 4.2% rate he inherited from President Clinton in January 2001. An estimated three million net additional jobs were added during President Bush's eight years in the Oval Office, versus nearly 23 million net new jobs added during the eight years of the Clinton Administration (*Bloomberg.com*)...

...Now it falls to President Obama



"TEA"sers

Puns that didn't quite make it to the big time:

- The short fortuneteller who escaped from prison was a small medium at large.
- A grenade thrown into a kitchen in France would result in Linoleum Blown apart.
- A chicken crossing the road is poultry in motion.



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