



...weekly since 1976

Your guide to understanding
today's economy and
financial markets

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Big Third Down

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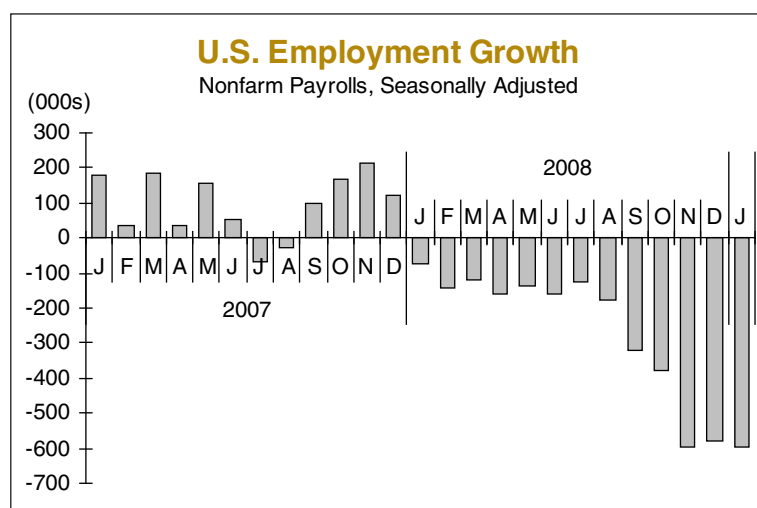
January's U.S. employment report was the third in a series of massive hits to employment. More of the same is likely over the next few months.

The American economy lost an estimated 598,000 net jobs in January, exceeding economists' consensus estimate of a 530,000 net employment decline. Adding insult to injury was a 66,000 increase in estimated jobs lost during the two prior months.

as consumer inflation during the most recent 12-month period was only 0.1%.

Shock & Awe

Look at the monthly employment data chart. I have been making the case that the nosedive of recent months is directly tied to Federal Reserve Chairman Ben Bernanke and then-U.S. Treasury Secretary Hank Paulson telling the U.S. Congress and the American people on Friday, September 18, 2008 that the sky was falling.



This was the day they asked the Congress for an immediate \$700,000,000,000—no questions asked—in order to support financial markets and deal with toxic assets polluting commercial and investment bank balance sheets...

...the American consumer basically stopped spending at that point

Adding more insult was the annual benchmark revision to prior data. The Bureau of Labor Statistics of the U.S. Labor Department revised prior data to indicate that nearly 3.0 million net jobs were lost during 2008, versus the 2.6 million we were told of last month. A total of 3.6 million net jobs have now been lost since the current recession officially began in December 2007, with half...one-half... of these jobs lost during the past three months alone.

The nation's unemployment rate was also grim, with the rate rising to a 16-year high of 7.6%, versus 7.2% in December. Only a sharp decline in the estimated labor force prevented the rate from moving even higher.

Better news was found in earnings. Average hourly earnings rose five cents (0.3%) to \$18.46, a 3.9% rise during the past 12 months. The 3.9% rise was meaningful in terms of purchasing power,

The loss of nearly 1.8 million net jobs during the past three months alone was the largest 3-month loss since just after World War II...when the war effort was going through an awkward but longed-for conversion to peacetime.

Goods Production Hammered

The nation's goods-producing sector got royally hammered during January, with a net loss of 319,000 jobs. Manufacturing bore the brunt of the job losses, with another 207,000 jobs biting the dust, the largest monthly loss since 1982. The sector has lost 1.1 million jobs since the recession began in December 2007.

The nation's beleaguered construction sector was also hit hard, with the loss of another 111,000 jobs. A total of 781,000 jobs have disappeared since the recession began.

Poor Service

The nation's service-providing sector also was hit hard with an estimated loss

of 279,000 jobs during January. The professional & business services sector lost 121,000 jobs, while retail trade lost 45,000 more positions. Leisure & hospitality lost 28,000 jobs.

As usual, education & health services gained employment, with the addition of 54,000 jobs. The government sector, one that never seems to lose many workers, added a net 6,000 new jobs.

7.6%...going to 9.0%+

As one would expect, the painful plunge in employment led the unemployment rate sharply higher. January's 7.6% rate was up 0.4% from December's 7.2% rate. The unemployment rate 12 months ago? 4.9%.

Given expectations of hundreds of thousands of more layoffs and job eliminations, the nation's unemployment rate is likely to reach...and perhaps exceed...9.0% before the end of 2009. More bearish forecasters see the rate easily reaching double digits by this time next year.

"Under"employment

A more alarming measure of employment pain—known as the under-employment rate—has drawn more interest during the past year. The rate includes the unemployed, an estimate of those discouraged workers who have now left the labor force (and are thus not considered unemployed), and those millions of workers employed part-time who would prefer to work full-time.

That figure reached 13.9% in January, up from 13.5% in December. The 13.9% was the highest for this measure since it was first calculated in 1994.

Education & Employment

There has always been a direct correlation between levels of educational attainment and employment. The old "rule" suggested that the higher the level of education, the greater the chances that such a person was employed.

The "rule" still applies. However, rising joblessness for those of all education levels illustrates just how widespread the current recession is.

The jobless rate for those with less than a high school diploma reached 12.0% in January, versus 9.0% a year ago. The rate for those high school graduates with no college rose to 8.0% from 5.4% a year ago.

The jobless rate for those with some college or an associate's degree reached 6.2%, versus 4.0% a year ago. The jobless rate for those workers with a bachelor's degree or higher reached 3.8%, versus 2.2% in January 2008. The 3.8% rate was the highest since such recordkeeping began in 1992.

Global Pain

Severe weakness in American employment is not an isolated situation. Employment declines are found around the globe, with two solid illustrations...

Canada...the loss of an estimated 129,000 jobs in January was the worst monthly performance in more than 30 years. The loss included 111,000 jobs in manufacturing, primarily at auto makers. In addition, the unemployment rate moved sharply higher to 7.2%, up from December's 6.6% rate, the largest jump since 1992. It was just a year ago that Canada had a 5.8% jobless rate, the lowest in 33 years.

China...the Chinese Communist Party's office on rural policy estimated in recent days that 20 million migrant workers have lost their jobs in recent months. While China doesn't report nationwide unemployment, it does somewhat track the estimated 130 million rural migrants who travel from their home villages seeking work (*The Wall Street Journal*).

Coming Months?

The only sure thing is that more pain is coming. Businesses are taking a "shoot first, ask questions later" approach to employment, cutting ruthlessly. Such a pattern seems likely to continue as we move toward the end of the year.

One saving grace is that every time the U.S. economy is in recession people collectively wonder if we will ever escape it...

...we do...we
can...we will



"TEA"ser

All of us could take a lesson from the weather. It pays no attention to criticism.



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