Tea Leaf

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Your guide to understanding today's economy and financial markets

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Painful…But Better

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

Six months of horrific job losses gave way to a "still terrible but at least moving in the right direction" employment report for the month of May. The reported 345,000 job decline was sharply below the consensus forecast of a loss near 520,000 jobs. It was also the lowest number of reported monthly job losses in the past eight months.

The 345,000 jobs lost were roughly half the average monthly employment loss of the prior six months (see chart below). Moreover, previously reported job losses for the months of March and April were revised to show 82,000 fewer jobs eliminated. In addition, nearly one-third of American industries added jobs during the month, the highest percentage in seven months.

Various elements within government and the media have talked of "only" 345,000 jobs lost during May. Note that the loss in May exceeded the highest level of job losses in a single month in any of the three prior U.S. recessions. Also, those 345,000 additional people who lost jobs in May—combined with perhaps twice as many dependents they house, clothe, and feed—probably wouldn't appreciate being part of the "only" reference.

We now have six million fewer jobs in the American economy than we had when the recession started in December 2007. Job losses in the current lengthy recession—with more losses to come—rank as the greatest job destruction recession since the Great Depression.

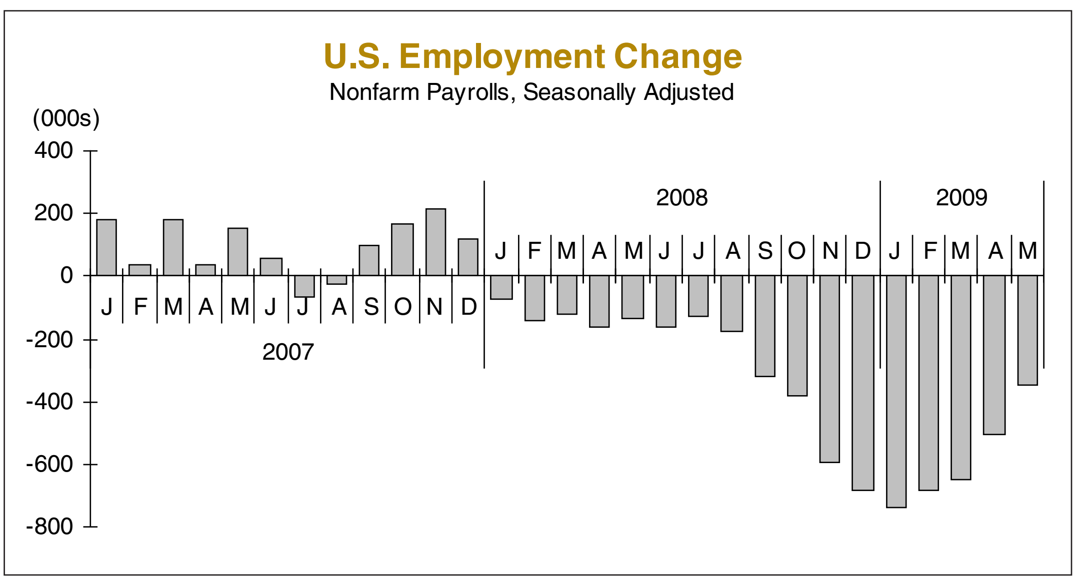
9.4% Jobless

Equally newsworthy was the sharp spike in the nation's unemployment rate from 8.9% in April to 9.4% in May, a 26-year high. There is an element of "good news" that helps explain the rise. The unemployment (or jobless) rate jumped sharply in recent months because of a significant rise in the number of people seeking employment who were not doing same a few months ago.

Note that in order to be counted as "unemployed," one must be actively seeking work in the labor market. When economic times are worse, for example the prior 6-8 months, tens of thousands of people simply give up hope of finding a job and leave the labor force. They are not then considered unemployed.

When more signs of economic stabilization and imminent growth are found in the economy, tens of thousands of more optimistic job seekers return to the labor force in search of employment. Unless and until they find a job, they are counted as unemployed.

To illustrate, the estimated labor force rose from 154,048,000 people in March 2009 to 155,081,000 in May, a jump of



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1,033,000 people. Since all of these job seekers are not immediately hired, the estimated number of "unemployed" people rose, in this case from 13,161,000 people in March to 14,511,000 in May…hence the sharp rise in the nation's unemployment rate…

…had the estimated labor force in May stayed at March's level—with the number of unemployed therefore not rising sharply—the unemployment rate would have been 8.7%...rather than 9.4%.

Fewer Losses

As bad as the May data was, it looked pretty good versus prior data. Goods-producing industries, as usual, felt much of the pain, with the loss of another 225,000 jobs. The nation's construction sector shed another 59,000 jobs, an improvement versus the 108,000 jobs lost in the prior month.

Manufacturers shed another 156,000 jobs, slightly worse than the 154,000 jobs lost the prior month. May's drop included nearly 30,000 more job cuts among auto makers and auto parts suppliers. Unfortunately, more auto sector job losses are coming.

Service-providing industries lost 120,000 jobs in May, roughly half the 230,000 jobs trimmed the prior month. Professional & business services lost 51,000 jobs in May, less than half the 111,000 jobs deep-sixed in April. Retail trade lost 18,000 jobs, half the 36,000 jobs lost in the prior month.

The leisure & hospitality sector added 3,000 jobs, after losing 38,000 jobs during the prior month. The education & health services sector added 44,000 jobs in May, more than three times the addition of 13,000 jobs in April. The government sector lost 7,000 jobs after adding 92,000 jobs in April (most related to temporary census hiring).

Miscellanea

- Average hourly wages rose a paltry two cents (0.1%) to $18.54 per hour, a rise of 3.1% over the past 12 months. The gain, the smallest year-over-year rise since November 2005, looks better when measured against the Consumer Price Index, which has actually declined 0.7% during the most recent 12-month period
- The "underemployment" rate—a relatively new measure since 1994—which includes 1) the unemployed, 2) those discouraged workers who left the labor force and are no longer considered unemployed, and 3) those who are working part-time but prefer full-time work reached a record 16.4% in May
- The average work week slipped to 33.1 hours, a record low

The Value of Education

As one would expect, there is a direct correlation between educational attainment and unemployment, although all classifications have been hit by this most lengthy and painful of recessions. Note: Each measure is for those 25 years of age and older. The unemployment rate for those with less than a high school diploma rose from 14.8% in April to 15.5% in May. The unemployment rate for high school graduates with no college rose from 9.3% in April to 10.0% in May.

The unemployment rate for those workers with some college or an Associate's degree rose from 7.4% in April to 7.7% in May. And finally, the unemployment rate for those with a Bachelor's degree or higher rose from 4.4% in April to 4.8% in May.

From Here?

As usual, there is no agreement as to where employment goes in coming months. Some forecasters suggest that employers will hold off significant hiring until an economic rebound is clearly underway. These same forecasters, as well as others, suggest that monthly job losses could continue until the early part of 2010, with the jobless rate exceeding 10.0%.

Others suggest that service-providing employers were particularly quick in reducing employment this time around the recession track. As a result, they will be inclined to add workers more quickly during the next year. They also suggest that with inventories of goods as low as they are, manufacturing output will have to be boosted sooner rather than later to meet demand…

…stay tuned

Jeff

"TEA"ser

My wife was hinting about what she wanted for our upcoming anniversary. She said, "I want something shiny that goes from 0 to 150 in about 3 seconds."

I bought her a bathroom scale. And then the fight started…

—from Bill Losey

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