Tea Leaf

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Your guide to understanding today's economy and financial markets

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Job Stumble

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The recent four-month trend of U.S. employment data reported as less ugly than the month before screeched to a halt in June, with a reported net loss of 467,000 jobs. The job decline followed a revised loss of 322,000 jobs in May, less than the 345,000 lost jobs initially reported.

The nation's unemployment rate rose slightly to 9.5%, versus 9.4% during the prior month. The 9.5% rate was a 26-year high and was the ninth consecutive monthly rise.

Good News? The average monthly loss of 426,000 jobs during the second quarter was 30% less than the average monthly loss of 691,000 jobs during the first quarter.

Bad News? We have noted frequently that the American economy suffered a net decline of 3.1 million jobs during 2008, the worst year for job losses since 1945. We, unfortunately, broke that record in the first six months of 2009 alone, with a loss…so far…of nearly 3.4 million additional jobs. Revised data now suggests that January 2009's loss of 741,000 jobs was the worst single month for job losses since 1949.

The current U.S. recession, now in its 19th or 20th month (depending upon how one counts from December 2007), is the longest, the deepest, and the most painful since the Great Depression.

Despite the painful hiccup in the June employment data, the majority of forecasting economists still expect the U.S. economy to return to slightly positive growth in the current quarter, although that forecast will be challenged by all too many in coming days.

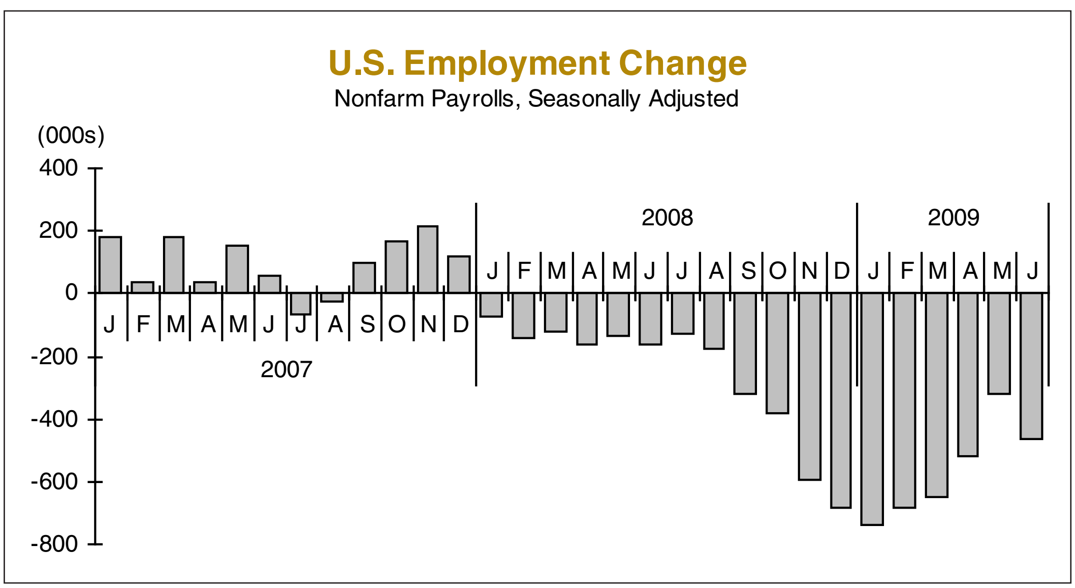
The Numbers

As usual, the U.S. *goods production* sector got hit, with a net loss of another 223,000 jobs. Manufacturing lost another 136,000 jobs, including 27,000 job cuts in the automotive sector. Manufacturing has now lost 1.9 million jobs since the recession began.

Moreover, additional auto employment weakness is in store in coming months, even as U.S. and global auto sales data is now less grim than it was a few months ago. The motor vehicle and parts sector has now lost 335,000 jobs since the recession began…a decline of one-third.

The nation's construction sector lost another 79,000 jobs, worse than the 59,000 job losses reported during the prior month. Construction employment is down 1.3 million jobs since the recession began. The nation's natural resource sector lost 8,000 jobs.

Service providing industries suffered the loss of another 244,000 jobs in June, led by the elimination of 118,000 more



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jobs in professional & business services. This sector has now lost 1.5 million jobs since the recession began, including the loss of 848,000 jobs in the temporary help sector.

Retail trade lost another 21,000 jobs, although losses have moderated in recent months. Financial activities lost another 27,000 jobs in June, adding to losses of 489,000 jobs since December 2007. The leisure & hospitality sector lost another 18,000 jobs.

Government employment fell by 52,000 jobs in June, led by the loss of 49,000 federal government workers temporarily hired to prepare for Census 2010. Note, however, that the government intends to hire more than 1.4 million people on a temporary basis during the next year to conduct the once-every-ten-year population count.

Better news was found in the education & health services sector, where 34,000 net new jobs were added. Health care jobs rose by 21,000 in June, matching the average monthly gain during 2009's first six months. Such gains averaged 30,000 jobs monthly during 2008…

…whew!

For The Record Books

Total U.S. unemployment now stands at a record 14.7 million people. A record 4.4 million of the total (29%) have been out of work for six months or longer.

The "underemployment" rate, which includes the unemployed, those who have stopped looking for work, and those working part-time who would prefer to work full-time, rose to a record 16.5% from May's 16.4%. Such recordkeeping has occurred for the past 15 years only.

Average hourly earnings were unchanged at $18.53. The 2.7% rise of the past 12 months is the weakest since September 2005. However, when compared against the actual 1.3% decline in the Consumer Price Index during the latest 12-month period, real hourly wages continue to rise.

Given the recent decline in inflation pressures, real average weekly earnings are also rising slightly. However, the dip in the average workweek from 33.1 hours to 33.0 hours, the lowest since such record-keeping began in 1964, was ominous. The decline reflects more and more employers who are trimming hours or requiring furloughs as an alternative to cutting wages or boosting layoffs.

Moving Higher

The modest rise in the jobless rate to 9.5% was better than the expected rise to 9.6%. However, the rate will continue to rise, with most forecasters expecting the jobless rate to reach 10.0% before the end of the year. More bearish views see the rate approaching 11.0% by the end of 2010. Note that the jobless rate reached 10.8% during the serious recession of the early 1980s.

From Here?

The disappointing June employment report will lead to expanded discussion about the need for another government stimulus package. Let's hope sanity prevails.

Note that the $787,000,000,000 stimulus program passed at the President's urging earlier this year still finds 85%-90% of the funds unspent. In fact, one recent estimate suggested that less than 1% of the funds in the stimulus program earmarked for construction projects had been disbursed. This is…after all…the federal government at work.

Note also that the Administration supported passing the stimulus program with a prediction that it would lead the nation's unemployment rate to peak at 8.0%…with the creation of millions of jobs…oops, and we'll see.

Note also that a growing debate is emerging within more conservative circles that the current stimulus program should be scrapped because 1) the economy is expected to return to modest growth before the end of the year, and 2) the rising anxiety of consumers, corporate leaders, and global investors about future inflation and a weaker dollar—tied to massive U.S. budget deficits this year and next and next and next and next (somebody stop me)—is doing more harm than the program might do good.

Jeff

"TEA"ser

Spring Cleaning

One day at the office, one worker went up to his boss and asked, "Could I have a day off, sir, to help my wife with the spring cleaning?"

"No. Absolutely not," his boss replied angrily.

"Thank you sir. I knew I could count on you."

—from Bill Losey

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