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Your guide to understanding
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Getting Better (OK...Less Bad)

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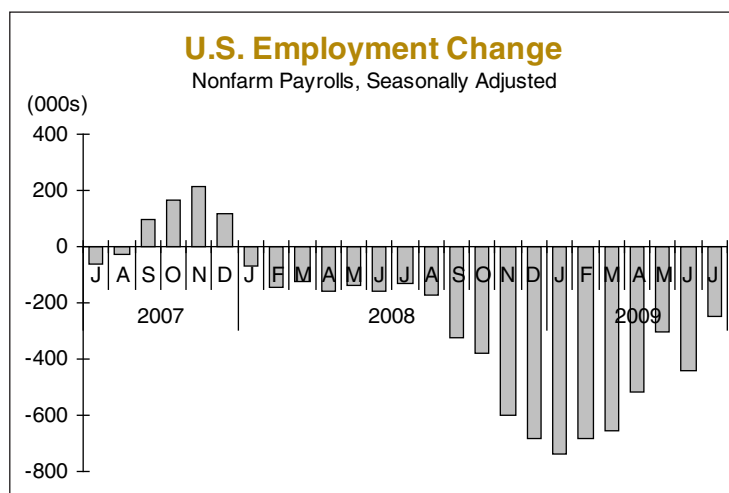
The latest U.S. employment report had more elements of good news than perhaps any report in nearly a year, although all is obviously not well with employment. Still, it is nice to talk about more signs of an American economy now very likely transitioning out of the longest and most painful recession in our lifetimes.

As you have no doubt heard *ad nauseam*, much of the July employment news was better than had been expected. Job losses were less than the consensus forecast, while the unemployment rate actually declined slightly.

Job Losses...in July

The nation's *goods producing* sector lost another 128,000 jobs during July, led by the elimination of another 76,000 jobs in construction. The nation's manufacturing sector saw another 52,000 jobs bite the dust, although the loss was the smallest in a year.

One element of what economists call "noise" in the report was the "addition" of 28,000 jobs in the automotive sector. While GM and Chrysler did see many workers return to the factories, the infamous "seasonal adjustment" seems to have overstated the gain a bit.



The nation's much larger *service providing* sector reported a loss of another 119,000 jobs, led by the elimination of 44,000 positions in retail trade. The professional & business services sector also got hammered, although less than in recent months, with a loss of 38,000 more jobs. Better news saw employment gains in education & health services (17,000 net new jobs), leisure & hospitality (9,000 net new jobs), and government (7,000 net new jobs).

Job Losses...in Perspective

The American economy lost another 247,000 jobs during July. While a terrible number, it was less than the 325,000 net loss expected. In addition, previously reported job losses for May and June were revised to show 43,000 fewer jobs lost.

Average job losses during the past three months (331,000) were roughly half the average loss of 648,000 jobs monthly during the prior four months. Still, the loss of nearly 3.6 million jobs during 2009-to-date outpaces the nearly 3.1 million jobs lost during 2008, which was the worst year for U.S. job performance since 1945.

The combined loss of nearly 6.7 million jobs (down 4.8%) during the Great Recession...so far...is easily the most painful period of lost employment since just after WWII. Unfortunately, this number will only grow over the balance of the year.

Jobless Rate Dips

The "headline grabbing" number in the report was the surprising decline in the nation's unemployment rate to 9.4% in July from 9.5% in June, the first decline in 15 months. Unfortunately, "noise" was front and center with what is likely to be a temporary reduction in the rate.

It seems counterintuitive to lose roughly one quarter of a million jobs during a month, only to have the unemployment rate decline. Such was the case in July. The jobless rate declined because an estimated 422,000 people left the labor force during the month, thus no longer to be counted as unemployed.

In fact, while more and more signs of a return to modest U.S. economic growth are

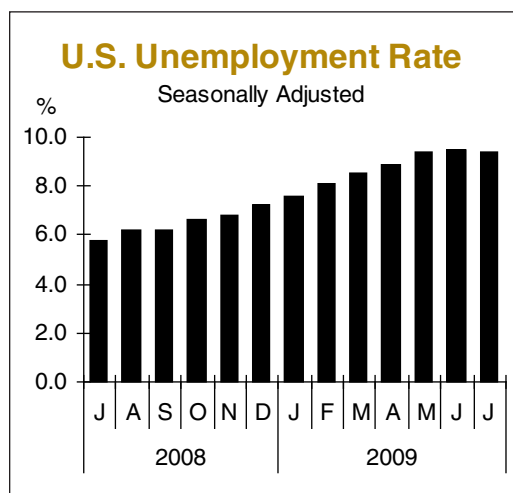
apparent, the unemployment rate is likely to reach—and probably exceed—10.0% during the next 6-9 months. The logic follows...

When people who had previously given up a search for employment read or hear of more opportunities for jobs in an improving economy, hundreds of thousands begin to search again. Unless and until they find jobs, they are once again counted as unemployed...hence, a rising jobless rate.

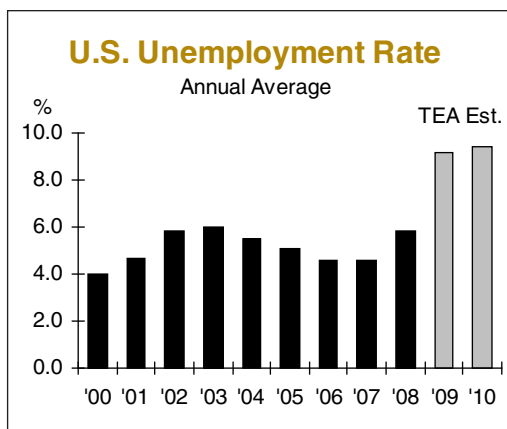
More Job Data...

The Good

- The average hourly work week rose ever so slightly to 33.1 hours from a record low of 33.0 hours in June, a sign that many employers are no longer cutting hours as much for their workers. More signs of economic growth in coming months will lead this measure higher, before laid off workers are rehired
- Along the same lines, the number of workers who preferred full-time work but could only find part-time employment fell by 191,000 (down 2%), another positive sign



- The number of job seekers who have been without work for 14 weeks or less was 6.8 million in July, the smallest total in eight months
- The average hourly wage rose by three cents, up 0.2%, to \$18.56 hourly. The 2.5% rise of the past 12 months is weak, but still looks good versus the 1.4% decline in the Consumer Price Index during the most recent 12-month period



- The “underemployment” rate, one which combines the jobless rate, those working part-time who prefer to work full-time, and those discouraged people who have left the labor force, declined as well, dipping to 16.3% versus a record high (since such a measure started 15 years ago) of 16.5% in June

The Bad

- The number of people unemployed for more than six months rose again to nearly five million, a record high
- The average job seeker has been without work for an average of nearly six months, the longest period in 61 years of U.S. Labor Department recordkeeping. The year-end 2008 average was five months

From Here?

As usual, employment forecasts are all over the map. Many forecasters suggest that the level of corporate confidence is still so weak as to severely limit new hiring in coming quarters. Others suggest that the plunge in U.S. employment last fall and earlier this year was so rapid, so severe, so all-encompassing, that an accumulation of more positive economic news will lead total employment to snap back with a vengeance.

In either case, painfully high levels of unemployment are likely to remain with us for an extended time. Even the most bullish forecasters suggest that the U.S. economy will not return to near full employment, considered to be a 5.0%-6.0% jobless rate, until 2012 or slightly later.

“TEA”ser

If you wish to die young, make your physician your heir.

—Romanian Proverb



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