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Your guide to understanding
today's economy and
financial markets

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Mixed Bag

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

U.S. employment data for August was a mix of “getting less painful” and “getting worse”...both as expected. The crux of the data was one more sign that the U.S. recession has largely run its course, although ongoing, but lesser, job losses and rising unemployment will remain the norm in coming months.

Take a close look at the employment chart below. It notes the U.S. employment sector getting consistently worse from August 2008 through January 2009—and better (with one exception) from February 2009 through last month. A simple extension of the pattern in coming months suggests a return to slightly positive American job creation

sooner rather than later (what a concept!), although the consistency of the trend may become more hit and miss.

Up to 9.7%

More ominous was the increase in the nation's unemployment rate from July's 9.4% rate to 9.7% in August, a 26-year high. We suggested in the August 5, 2009

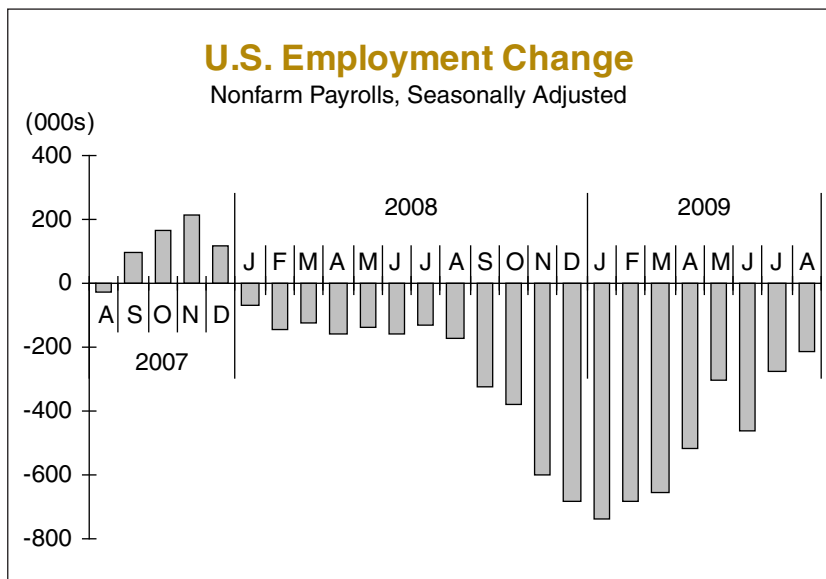
issue of the *Tea Leaf* that July's slight dip to 9.4% from June's 9.5% rate was tied to a temporary drop in the labor force, and that “the unemployment rate is likely to reach—and probably exceed—10.0% during the next 6-9 months.” Such a double-digit rate could occur at any time in coming months.

Fewer Job Losses

The U.S. economy lost a net 216,000 jobs during August, slightly better (less bad) than the 230,000 loss expected by forecasting economists. The loss was the smallest in 12 months, and more than 60% below the average monthly job loss during 2009's first half. However, revised job data of the two prior months suggests 49,000 more jobs were lost than in previous estimates.

Goods producing employment bore the lion's share of the losses, with a net decline of 136,000 jobs. Construction employment fell by another 65,000 jobs. Manufacturing lost 63,000 additional jobs, taking losses within the sector to two million since the “Great Recession” officially began in December 2007. Mining employment declined by 9,000 jobs during the month.

Service providing employment fared somewhat better, with a loss of another 80,000 jobs. Professional & business services lost another 22,000 jobs, while retail trade lost 10,000 positions. Still, each sector did substantially “better” than in previous months.

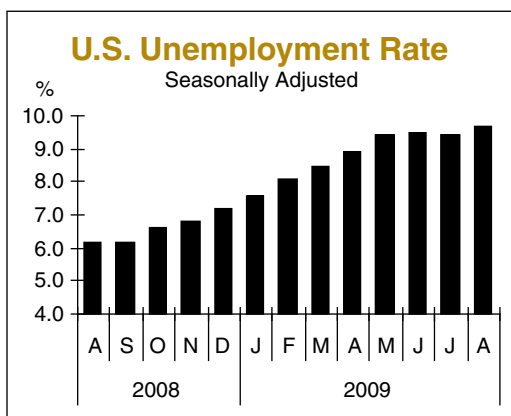


The leisure & hospitality sector lost 21,000 jobs, while the government sector lost 18,000 positions, led by fewer jobs in state & local government and at the Postal Service. Better news saw the education & health services sector add another 52,000 jobs.

Details...Details

- The net decline of 3.08 million jobs during 2008 was the worst year since 1945. The loss of 3.85 million jobs during 2009's first eight months has already surpassed the 2008 total. The net decline of 6.93 million jobs is a painful contrast to the average gain of 1.9 million net new jobs annually during 2005 to 2007

- The average hourly wage rose 0.3% (six cents) to \$18.65 hourly. While the rise of 2.6% during the past year is meager at best, it looks more favorable versus the actual 2.1% decline in the Consumer Price Index (CPI) for the most recent 12-month period ending in July
- The average workweek held at 33.1 hours in August, just slightly above the record low of 33.0 hours in June. Many employers tend to boost hours of current workers before making new hiring additions



- The “underemployment” rate rose to 16.8% in August, versus 16.3% in July. This rate, at its highest level since such a measurement began 15 years ago, combines the announced jobless total with those who are working part-time but prefer full-time jobs, and those discouraged workers who have given up seeking a job (and are no longer counted as unemployed)
- An estimated 14.9 million people are currently considered unemployed, the highest level since the Great Depression. The total breaks down to an average of nearly 300,000 unemployed people in *each* state. Five million people have been out of work for more than six months, with hundreds of thousands of construction and manufacturing jobs never to return
- The unemployment rate for men 20 years and older rose to 10.1% in August from 9.8% in July. The jobless rate for women 20 years and older rose to 7.6% in August from 7.5% in July
- The jobless rate for teenagers rose to a record 25.5% in August, up

sharply from 23.8% in July. More conservative thinkers would suggest that the recent sharp increase in the minimum wage from \$6.55 to \$7.25 hourly simply made unskilled younger workers too expensive

- The unemployment rate for Whites rose to 8.9% in August, versus 8.6% in July. The jobless rate for Blacks or African Americans rose to 15.1% in August, up sharply from 14.5% in July. The jobless rate for those of Hispanic or Latino ethnicity rose to 13.0%, also up sharply from 12.3% the prior month
- “Temp” worker job losses fell to 6,500 in August, versus an average monthly loss of 51,000 jobs during 2009’s first six months (*The Wall Street Journal*). Such a move is viewed positively, since many firms hire and fire “temp” workers before adding to more permanent payrolls. Total “temp” employment has fallen from 2.6 million to 1.7 million since the recession began, with one of every eight jobs lost in the recession a temp job

From Here?

The vast majority of forecasting economists agree that the U.S. economy will grow during 2009’s final half, as well as throughout 2010. However, a major debate rages as to the vibrancy of such economic growth, as well as how employment markets will fare.

Some see a significant growth rate between July and December 2009, with solid growth during 2010 and 2011 as well. They see job gains returning at a favorable pace, arguing that employers were very quick to cut jobs during the past year and will need to rebuild staffing levels quickly.

Others see a more modest economic growth pace, with employment gains in various months offset by net losses in other months. They point to the fact that even as the U.S. economy emerged from its prior eight-month recession in November 2001, total employment actually declined slightly during the next two years...the infamous “jobless” recovery.

By way of comparison, either scenario is much better than the enormous employment hemorrhage since the Great Recession began...

“TEA”ser

If the baby is happy, don’t try to make it happier.

—Dan Keeton



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