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Your guide to understanding
today's economy and
financial markets

January 12, 2010

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Job Challenge

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

December's overall employment report can be placed in the "disappointing" pile, with most of the components coming up short. Still, there were additional signs that consistent, if not robust, U.S. job creation is expected sooner rather than later.

The American economy lost another 85,000 net jobs in December, worse than the consensus forecast of little to no change. Better news saw November's initially reported loss of 11,000 jobs revised to a net gain of 4,000 jobs, the first reported gain since the Great Recession officially started in December 2007.

As noted frequently, most forecasting economists expect the National Bureau of Economic Research, the official score-keeper of the U.S. economy, to announce later this year that the recession "officially" ended sometime between June and August of 2009. Good riddance!

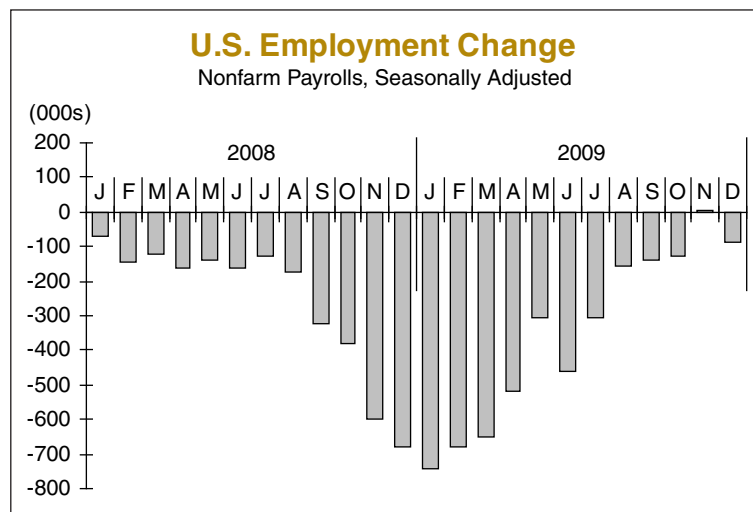
Even as job losses were disappointing, one major point of optimism stands...an average loss of 69,000 jobs per month during 2009's final quarter was one-tenth...one-tenth!...that of the 691,000 average monthly loss during the year's first quarter.

The unemployment rate did not rise because the labor force as estimated in the Bureau of Labor Statistics "household" survey declined by 661,000 people... people for the moment no longer looking for jobs and no longer counted as unemployed. The labor force has declined by nearly two million people during the past seven months, one of the sharpest declines on record.

In fact, the civilian labor force participation rate (the share of the adult population in the labor force) declined to 64.6% of adults during December 2009, the lowest level in 24 years. Too many people are simply discouraged from finding jobs, with too few jobs available.

Job Gains and (Mostly) Losses

The *goods producing* sector of the U.S. economy lost another 81,000 net jobs during December, led by the loss of another 53,000 jobs in construction. The construction sector has now lost 1.6 million jobs since the recession began in December 2007. The Wall Street Journal notes that the sector lost a net 800,000 jobs, down 12%, during the past 10 years.



Manufacturing employment fell by 27,000 jobs in December, with the sector losing 2.1 million jobs since the recession began. The WSJ notes a painful loss of 5.7 million jobs, down 32.7%, during the past decade. Employment in motor vehicle production has fallen by 50% during the past 10 years! Better news saw the mining & logging sector adding 100,000 net jobs, up 18.5%,

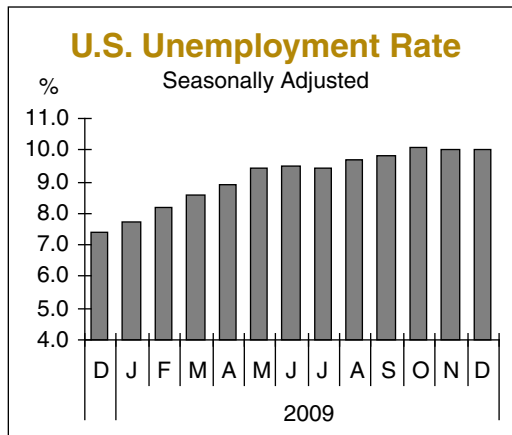
10.0%

The greater-than-expected job loss was accompanied by a U.S. unemployment (jobless) rate that remained at 10.0%, versus consensus expectations of a very slight rise. Unfortunately, the jobless rate was unchanged for the wrong reason.

during the past decade.

The much larger *service providing* sector of the U.S. economy lost a net 4,000 jobs last month, with retail trade losing 10,000 jobs. The sector lost 500,000 jobs, down 3.5%, during the past 10 years.

Professional & business services added 50,000 jobs in December, with the sector gaining 400,000 jobs, up 2.8%, during the past decade. The leisure & hospitality sector lost an estimated 25,000 jobs in December, but added 1.4 million net new jobs, up 11.9%, during the prior decade.



Education & health services added 35,000 jobs last month, with a rise of 700,000 jobs in education services, up 32.1%, and an impressive gain of 3.8 million jobs, up 29.9%, in health care during the past decade. The government sector lost an estimated 21,000 jobs in December, but added 2.0 million net new jobs, up 9.4%, during the past 10 years.

Within other service occupations, the information sector lost 700,000 jobs, down 20.6%, during the past 10 years, with wholesale trade losing 300,000 jobs, down 5.6%; transportation & warehousing losing 200,000 jobs, down 4.8%; utilities losing 40,000 jobs, down 6.5%; financial activities flat at 7.7 million jobs; and other services adding 300,000 jobs, up 4.6%, during the past decade.

The data makes it all too clear that the Great Recession, the associated financial and economic upheaval domestically and around the globe, and powerful gains in worker productivity...particularly in manufacturing...wreaked havoc on overall employment during the past two years and over the past decade. As noted before, this was the first recession since the Great Depression to eliminate all net job additions during the prior economic expansion.

Other Good and (Mostly) Bad Data

- The total number of people counted as unemployed last month was 15.3 million. Forty percent of the total, or 6.1

million people, have been unemployed for 27 weeks or longer

- The “underemployment rate”...that which includes those 9.2 million people working part-time who would prefer to work full-time and those 2.5 million people who want jobs but have given up the search...rose to 17.3% in December, up slightly from 17.2% in November
- “Temp” employment rose by 47,000 workers in December, the fifth straight monthly gain. Employers typically will hire “temp” workers before committing to new full-time workers, a positive sign for future job gains
- The average hourly wage rose three cents, up 0.2%, to \$18.80 hourly. The wage has risen a modest 2.2% during the past year
- The U.S. economy lost 3.1 million net jobs during 2008, the worst year for American employment since 1945. That record was easily broken in 2009, with the loss of an additional 4.1 million jobs

What to Expect

Check out the employment chart on page 1. If the pattern continues, the U.S. economy will move to consistent job gains in coming months. More optimistic economists see gains of 150,000 to 300,000 net new jobs monthly by mid-year.

Note, however, that the unemployment rate is expected to move higher in coming months even as net job gains likely return. News and rumors of greater job availability will likely draw hundreds of thousands of people back to the labor force in search of a job. Unless and until they are hired, they will be counted as unemployed. In such a case, the economy would have to add 100,000 to 150,000 jobs each month just to keep the jobless rate from rising.

In addition, U.S. economic growth is strengthening. The economy grew at a 2.2% real (after inflation) annual growth pace during 2009’s third quarter. Most estimates for the fourth quarter just ended are near a strong 4.0%-5.5% real annual pace, with 3.0% real growth expected during 2010’s first half.

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—Bob Dole



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