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ECONOMIC TALKING POINTS

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A Horrific Jobs Report for January. But What's Really Going On?

Is the economy's descent slowing? It seems like an outrageous question to ask when we just saw January payrolls shrink by a shocking 598,000, the biggest monthly fall in 35 years. How could we even entertain such a question when labor market conditions in November and December also turned out to be worse than originally thought? Government revisions tacked on an additional 66,000 in job cuts, lifting payroll losses to 597,000 and 577,000 in those months, respectively.

Moreover, the unemployment rate just spiked to 7.6%, up from 7.2% the previous month. If the jobless rate maintains its pace of the last 12 months, we'll see it cross into double digits a year from now. It has already reached that point for African Americans (12.5% unemployment rate) and teenagers (20.8%), with the Hispanics edging closer toward that threshold (9.7%).

With all this bad news, how can anyone propose the idea this recession is losing steam? Before we explain, let's first examine the jobs report.

Clearly no matter what table or chart you look at in the employment release, there's little uplifting news to be found. It portrays an economy still in serious decline.

- The goods producing sector lost 319,000 positions, the worst since 1975. Services slashed 279,000. (We'll return to the service sector in a moment.)

• The economy has shed 3.5 million jobs since January 2008, the largest 12-month decline since the government started compiling these figures in 1939. About half the decrease occurred in just the last 3 months. That alone would suggest conditions are worsening, not improving.

• While the headline unemployment rate is 7.6%, that figure jumps to 13.9% when you add in all workers who gave up looking for a job plus those Americans who accepted part time work because they were unable to locate full time employment. The more broadly defined unemployment rate of 13.9% is the highest the BLS has recorded since tracking this series in 1994.

So, yes, the January job numbers were awful, horrific, and it seems unimaginable anyone could argue the economy's decline is slowing. Then why raise this issue now? Because hidden in virtually all the economic reports out this week are some intriguing crosscurrents that hint this recession could soon be slowing. Indeed, we even found a few factoids in today's employment report that suggest a possible softening in the recession in the months ahead.

• The median duration of weeks Americans have been out of work has declined to 10.3 in January from 10.6 in December.

• For the first time in this recession, we had a drop in the number of people forced to accept part time work because of the lack of full time jobs. There were 7.7 million such part timers in January, down from its peak of 7.9 million the month before.

• The loss of jobs in the ***private service sector***, which makes up for about 70% of all employment in the US, has slowed considerably in January, compared with the two previous months. Companies in the service sector shed 352,000 positions in November, 317,000 in December and 285,000 last month.

• Average weekly hours worked in the private production sector was 33.3 in January, the same as in December.

• According to the diffusion index, which tracks employment changes in 271 industries, the number of firms that have laid off workers in January appears to be bottoming out with the index slipping to 25.3 from 25.5 in December.

• Over the past 12 months, average hourly earnings increased by 3.9%, and average weekly earnings rose by 2.7 percent. With consumer price inflation nonexistent, those still on the job are seeing pay increases in real terms, and this can drive consumer spending higher in the future.

What's our point here? The economy is still in recession and will remain so for another quarter or two, so let's be clear about that. We are not making a call that a recovery is around the corner. All we're saying is that before we can even talk about a recovery we first have to see evidence the downswing is decelerating. We found a few tantalizing clues hinting of this declaration in most of this week's reports.

Let's examine others released this past week.

1. Initial Claims for Jobless Benefits

First, the grim headlines: New claims for unemployment for the week ending January 31, crossed the 600K threshold and shot up to 626,000, the most since October 1982.

A promising sign. In the same report, the government pointed out that **48 states and territories reported a decline in new claims** (for the latest week of January 24th), with only five noting an increase!!

2. Pending Home Sales

Here was a nice surprise. The number of Americans signing contracts to buy an existing home rose in December for the first time since August. The Pending Home Sales index increased to 87.7 and now stands **higher** than it was a year ago.

3. Home Affordability Index

Another pleasant piece of news. The National Association of Realtors released its measure of home affordability and its index rose in December to 158.8, the highest ever recorded by this group. This gauge is a composite based on home prices, mortgage rates and median family income.

4. Institute for Supply Management (ISM) -- Services

First, the grim headlines. Business activity in the service sector continued to decline in January, with the index at 42.9. A reading below 50 means conditions are still weakening.

A promising sign. The index now stands above the 37.4 low in November which tells us the deterioration has slowed, an important development since services make up nearly 90% of the economy. The new orders component also rose to 41.6 last month, higher than it was in December and November. Four industries recorded improved orders: ***Finance & Insurance;*** Utilities; ***Construction***; and Information.

5. Institute for Supply Management (ISM) --- Manufacturing

First, the grim news. Manufacturing activity shrank again in January, as it has all of 2008.

A promising sign. The main index, which rose to 35.6, was higher than what economists had predicted. One reason is that the new orders index rebounded to 33.2 last month, from 23.1 in December and 28.1 in November. The improvement in new orders could lead to higher production in the months ahead. (By the way, he January production index rose to 32.1 after falling to 26.3 in December.)

6. US productivity in the final quarter of 2008

Good news. Despite the weakness in the economy, productivity jumped more than twice as much as economists had forecast. Non-farm productivity rose by a 3.2% annual rate in the fourth quarter, more than twice as much as the previous three months. Productivity gains are critically important because they lead to higher living standards, better wages, rising profits and keeps inflation in check.

What really caught our eye in this report is how much the fall in inflation has boosted household purchasing power. Real hourly compensation jumped by a 15.6% annual pace in the last quarter, the biggest increase since the government began tracking such data in 1947.

7. Same store retail sales

First, the grim headlines. Sales for stores open a year or more dropped 1.8% in January, according to a Thomson Reuters survey.

A promising sign. Analysts had expected worse for the month, forecasting a 2.3% decline. However, discounts succeeded in luring shoppers back into stores. That will help trim unwanted inventories and perhaps will set the stage for new orders to wholesalers and manufacturers in the second half of the year.

Bottom line: Are we guilty of picking and choosing specific data points to support an argument that the recession is losing steam? No. We're aware of the danger that if you torture the numbers enough, they'll confess to anything. The sole point being made here is that a pattern seems to be emerging that suggests the economic decline may be easing. Let's see if this trend can be observed more clearly in future economic reports.

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