

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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January 9, 2007

The Employment Report: Screams For a Stimulus Package Get Louder

December's employment report not only caps the worst job market since the end of World War II, but it suggests more substantial cuts are to come in 2009.

Nothing in this report tells us we're anywhere near a bottom on the labor front. Sure, some analysts may express relief that payrolls dropped by "just" 524,000 last month, rather than the 600,000 – 800,000 some were forecasting (including us). But even at 524,000, we're talking about a catastrophic collapse in job creation.

Just look at the acceleration in job losses throughout the year!! The first half averaged 82,300 losses a month, but then leaped to 355,000 a month in the second half!! And much of the latter momentum occurred in the final quarter of the year when we saw an average of 510,000 jobs were destroyed each month. That pace could well accelerate in the months ahead based on other data in this release, particularly the dramatic decline in average weekly hours worked.

Generally, companies cut hours FIRST before they lay off more workers. That's why jaws dropped after December's workweek unexpectedly plummeted to 33.3 hours, the lowest ever recorded --- or at least since the government began tracking such data in 1964. (Just to give this fact some context, the two worst recessions in the post World War II period were 1973 – 75 and 1981-82. Even then, companies were still averaging more than 36 hours a week and 35 hours a week, respectively. We can't get near to those levels now, which tells you just how destructive this economic downturn has become.)

At 33.3 hours, we're expecting several more months of at least half a million cuts in payrolls.

For the year as a whole, total nonfarm payrolls fell by 2.59 million jobs, the most since 1945. Yet even this tells part of the story. The private business sector actually shed 2.77 million jobs, making last year the worst since 1940 when the government began to record hiring in the private business sector. What prevented a worse fall in total payrolls was government employment which increased by 181,000 in 2008.

All told, 11.1 million Americans are out of work, the most since June 1983. We're not sure how accurate this number really is, since it's based on calls made to households and some people are too uncomfortable to admit they're now out of work. So the actual number could be higher, perhaps much higher. In any event, it is from this series we get the unemployment rate and it has shot up to 7.2%, the highest since January 1993. A year ago, the rate stood at 4.9%. If joblessness were to continue at the same pace this year as it did in 2008, we would be looking at 9.5% unemployment rate by the end of 2009. By the way, the two demographic sectors that have fared the worst last year were teenagers (joblessness rose from 16.9% to 20.8% the last 12 months) and African Americans (from 8.9% to 11.9%).

Here are some other notable factoids from the December jobs report.

- Americans forced to take part time jobs because they couldn't locate suitable full time employment now stands at a record 8.038 million, the highest ever recorded and a **73%!!** jump since December 2007.
- The job market has so deteriorated that 2.59 million Americans have now been out of work at least 27 weeks, the most we have seen in a quarter century. This places more pressure on Congress and the White House to keep unemployment benefits flowing even past the initial six month period.
- Many disgruntled Americans who have stopped looking for work are by definition not even counted in the 7.2% unemployment rate. Yes, that seems strange but this is the methodology used by the Bureau of Labor Statistics. However, if you add those frustrated workers, plus Americans resigned to part time jobs because of the lack of full time work, then the broader unemployment rate was nearly twice as high at 13.5% in December, the most since the government began keeping such stats in 1994.
- Our two favorite forward looking economic indicators in the employment report have not detected even a whiff of recovery nearby. Temporary employment jobs fell by another 81,000 in December. This is the second month in a row it shed as many workers, which makes the two-month loss the worst ever for temp workers. Our other favorite leading indicator is hours worked in the nondurable goods sector (those producing clothing, food, gasoline, and etc.). It fell to 39.7 last month, the lowest level of the year.

Not quite the direction you want to see for a measure that can foreshadow a turning point in the economy.

- There's one other stat worth mentioning. Average weekly pay for production worker increased only 2.2% the last 12 months. It has been slipping all year and now stands at its most depressed level in four years. This is a worrisome development because Americans these days are so worried about job and income security, they are setting aside more in savings each month. But if weekly earnings growth also slows, it means there will be even less available for spending.

Putting It All together

This employment report just screams for is a large, trillion dollar plus economic stimulus program from Washington --- and fast! But in the last 48 hours, Democrats have begun to argue among themselves about certain key components in President-elect Obama's package. One powerful faction thinks the \$300 billion in tax cuts and credits being offered to households and business may not contribute much toward a recovery. (Frankly, we too, doubt the efficacy of a \$3,000 tax credit given to employers for each worker they hire. Let's get real here. A subsidy won't lead companies to rush out and hire workers! Companies aren't looking for subsidies. What they want is economic growth! It's rising demand for goods and services! It's a conviction that an economic recovery is coming, and that it is real and sustainable. The emphasis has to be on spending projects that can generate real job creation and produce the kinds of multiplier effects that can benefit many sectors of the economy.

Any prolonged bickering in Congress among the Democrats and between the two parties threatens to delay the passage of a stimulus package just when time is of the essence. That would result in more loss in output and higher unemployment. It would also deepen the crises of confidence in America. Right now, households have little confidence in the economy and are laying low. Individual investors have lost confidence in the stock markets and avoid it entirely. Large investors have lost confidence in the capital markets, and won't even touch securitized assets, which are so critical to keeping markets liquid. Bankers have lost confidence in borrowers and have shut down the lending window. And, finally, there is the long running story line that Americans have lost confidence in their elected officials.

Once confidence is lost on such a grand scale, it takes a long time to gain it back. If a historic recession AND multiple alarming employment reports are not enough to get an economic rescue program passed by early February, the national crises in confidence will only deepen and prolong the agony and fear many Americans feel.