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ECONOMIC TALKING POINTS

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Jobs: From Bad...to Worse... to Awful...to Disasterous

We knew the job numbers we're going to be dismal for February. Most of us were braced for some bad news, and bad it was. But what jumped out the most is that employment conditions have deteriorated so rapidly not even the government can keep up with the collapse. The Bureau of Labor Statistics has had to revise the numbers for the worse in 11 of the last 14 months. It leaves us with a sickening feeling. We're now 15 months into the recession and it looks like the economy is caught in an economic black hole from which there appears to be no escape.

Since 1854, the US has undergone 64 business cycles and learned something about each. In particular, we have studied the works of Nobel laureates on the Great Depression. We know the policy mistakes that led us into it and the tools that eventually helped the country rebound.

And yet here we are face-to-face with a monster that is unrecognizable and leaves us perplexed and helpless. For more than a year and a half, the Federal Reserve has been hammering down short term interest rates until it couldn't any further. We're effectively at ZERO now, yet the economy remains in a coma. Over the last 19 months, the government has pledged about \$12 trillion ---yes trillion --- to stabilize the financial system and stimulate the economy. But the economy still lies prostrate.

Now we get February's jobs numbers and once again it depicts an economy that is utterly lifeless. The unemployment rate surged by 0.5 percentage points last month, to

8.1%, the highest in more than a quarter century. If the rise in joblessness continues at the pace we've seen over the last six months, the unemployment rate will shoot past 10% by June and exceed 12% before the end of the year. Unemployment for Hispanics, African Americans, and teens have already significantly passed the 10% threshold.

The economy lost 651,000 jobs in February --- a grim number that in all likelihood will also be revised to show a greater loss. After all, the BLS grossly underestimated conditions in the two previous months. It originally reported January's drop in payroll to be 598,000, but have now lifted it to 655,000. December was thought to have seen a loss of 577,000 jobs but that turned out to be way short. The BLS tacked on additional 104,000 posts to those that disappeared which brings the decline for the month to a massive 681,000 – the most since October 1949.

Since the start of the recession in December 2007, 4.4 million jobs have gone up in smoke, easily exceeding any previous downturn in the last half a century. However, even these numbers fail to capture the entire picture since the payroll numbers include government hiring (which was up by 9,000 in February). If one looks at employment trends in just the private sector, the stats are more disturbing. Companies have eliminated more than 600,000 positions in each of the past four months, a pattern we have never seen before --- and I'm talking about records that go back to 1939. During the course of this recession, firms have slashed a total of 4.511 million positions ---another for the record books.

What's so alarming is that the speed of job losses in the business sector has increased exponentially, moving from an average of 158,000 in the first half of 2008, climbing to 382,000 in the second half, to a 653,000 average in the first two months of 2009.

Of the 12.5 million people now out of work, nearly 1 in 4 have been jobless for 27 weeks or more. And the number of Americans who are clinging on to even part time jobs (“part time work for economic reasons”) to earn money for basic living expenses has now leaped to an historic 8.6 million.

Anyone tracking the overall unemployment rate also knows that even this figure, high as it is at 8.1%, doesn't fully reflect underemployment in this country. Many Americans are so discouraged by the poor job market, they simply stopped looking. Others have gone into the underground economy to make a living, perhaps selling goods at flea markets for cash. Then there are Americans who accepted part time work because they had no other choice. If you include all these workers into mix and broaden the definition of unemployment, the rate jumps from 8.1% to 14.8% -- the highest ever seen.

These are all frightening numbers and connote an economy that is still failing. What it doesn't tell us, however, is how much longer this recession will last. Typically, the unemployment rate continues to climb EVEN AFTER an economy quietly emerges from recession and starts to show positive growth. In other words, don't wait for the jobless rate to turn down to tell you the recession over. Unemployment is a lagging indicator; it

turns well after the economy transitions from contraction to growth. But there are a few subset indicators in this report that DO lead the rest of the economy. We pointed out two of them before and will do so again here.

At the very earliest sign of an increase in demand, employers will ask their workers to put in additional overtime hours and/or hire temp workers to increase output. Both have proven to be very good predictors of turning points in the economic cycle. Unfortunately, neither of these measures has improved. The number of temp workers in February fell by another 78,000. It has been falling EVERY single month since the start of 2007. The other highly sensitive leading indicator is average weekly overtime for production workers. It fell to 2.6 hours a week, the fewest since 1983. Manufacturing overtime hours have been falling ever since this recession began. But we expect it to be among the first to bounce back once growth turns positive again. For now, the only conclusion we can draw from both these leading indicators is that the economy is still months away from this recession bottoming out.

Is there anything positive to say about this report? There is one factoid worth mentioning. For those who are working, average weekly pay is now growing faster than inflation. Average hourly earnings increased by 3.6% over the past 12 months, and average weekly pay rose by 2.1%. Every cent earned represents an increase in purchasing power for working Americans since consumer prices did not increase at all over the year (based on the latest CPI from January '08 to January '09). In fact, real earnings have actually increased for three consecutive months and this may account for the recent pick up in consumer spending.

What should we look for in the employment report over the coming months? Aside from hoping to see an improvement in the two leading indicators mentioned -- temp workers and overtime hours, we will monitor the construction employment numbers to see if the economy has yet begun to benefit from the Administration's \$787 billion economic stimulus program, especially its impact on public construction projects. February's construction numbers were mixed. Employment in this industry shrank by 104,000, reducing its workforce to 6.6 million, the lowest so far this decade. At the same time, construction workers put in MORE hours of work in February (38.1 average weekly hours) than at anytime in the last three months.

As disturbing as the February job numbers are, we are still calling for this recession to end in the second half of this year. However, the probability for this scenario is just 45%. There's a 35% chance of a recovery in 2010, and 20% probability the down cycle will last into 2011.