

US job growth falls in May, amid signs of slowing economy

David Walsh**3 June 2006**

US employment grew by only 75,000 jobs in May, the smallest increase in seven months and down 40 percent from April's figure. The rise was considerably smaller than expected, and it comes as only one of numerous indicators point to a slowing American economy.

Retail trade and manufacturing lost 41,000 jobs between them in May. Figures for jobs growth in April and March were also adjusted downward, from 138,000 to 126,000 and 200,000 to 175,000, respectively. The official jobless rate fell to 4.6 percent in May, the lowest since July 2001. The latter figure's significance is unclear, under conditions where millions are either temporarily 'discouraged' or have withdrawn permanently from the workforce.

Meanwhile workers' average hourly earnings rose by only one cent in May and average weekly earnings actually decreased (due to a slowdown in average weekly hours).

Both the jobs growth and the earnings data fell far below the expectations of economic analysts. The median estimate of two dozen economists questioned by Dow Jones Newswires and CNBC had been for an increase of employment in May of 180,000 and a gain in hourly earnings of 0.2 percent. Seventy-nine experts surveyed by Bloomberg forecast a jump in last month's payrolls ranging from 125,000 to 200,000.

The lower than expected increase in jobs was generally greeted as unfortunate by the media, while the meager gain in wages was hailed as a healthy sign. For those concerned with whether the Federal Reserve will continue to raise interest rates to 'combat inflation,' neither figure was displeasing. As *TheStreet.com* noted, "In several respects, Friday's report is ideal for stock investors, showing restrained economic growth and contained wage inflation." However, the numbers on both jobs and wages are further bad news for the working population.

The Labor Department on Thursday adjusted its figures on workers' productivity upward for the first quarter, from 3.2 to 3.7 percent, while it revised lower its figures on unit labor costs, from 2.5 to 1.6 percent. The initial, unrevised figure on unit labor costs was *already* the lowest growth rate

recorded in seven years and well below inflation. All this was also 'good news' for investors.

The increase of 75,000 jobs last month was the smallest since October 2005, when employment stagnated due to the effect of Hurricane Katrina. Excluding the months affected by the hurricane, May's growth was the smallest registered since July 2004. Employment growth has slowed considerably since February; prior to that payrolls were rising an average of 200,000 jobs a month—the average has now fallen to just below 150,000, approximately the number of people joining the labor force each month.

The number of retail jobs has fallen by 71,000 in the past two months. The decline in manufacturing jobs—14,000—nearly wiped out the increase of 19,000 recorded in April. The percentage of those unemployed for at least half a year remains high, at 18.8 percent.

In passing, the Bureau of Labor Statistics monthly employment survey shed light on the conditions facing workers in the most difficult situation: the aftermath of Hurricane Katrina. The survey noted that the unemployment rate for the approximately 1.2 million persons 16 and over who had evacuated because of the storm stood at 14.3 percent. For those still not living in their former homes, nearly half of the evacuees, the rate was some 25 percent! Considering that those evacuated were in many cases impoverished to begin with, the BLS figures are truly alarming. These statistics were nowhere reported in the mass media.

Any honest observer acknowledges that the situation for the American working population as a whole is steadily worsening. Tim Annett in the *Wall Street Journal* June 2 writes rather bluntly that "for workers looking for a new job or a raise, the employment report seemed unambiguously bad. Hiring was not only weak in May; job creation in prior months was revised downward, too. Further, the measly rise in pay came as the unemployment rate sank to 4.6%, its lowest level in nearly five years. Taken together, the numbers suggest that workers are finding little leverage to demand higher pay even though labor markets are tight—and

if the economy is slowing down, the moment to shake a few more bits out of the bosses may be past. At the same time, soaring gasoline prices will keep hammering away at consumers' spending power."

Annett noted that May auto sales figures (the Big 3 US manufacturers all reported declines: GM, 12 percent; Ford, 2 percent; and DaimlerChrysler AG's Chrysler Group, nearly 11 percent) and modest increases in chain store sales "offered proof that lower-income shoppers are feeling the pinch of higher gas prices."

Writing in *USA Today*, syndicated columnist Julianne Malveaux commented: "The average American has not experienced much good economic news lately. The wealth gap is growing. Median family income has been dropping. Meanwhile, gasoline prices are up 36% from a year ago. With interest rates rising, those with adjustable rate mortgages face higher payments, and residential rents also are nudging up. Incomes are not keeping pace with inflation, and the job market is weak. ..."

"There don't seem to be many breaks out there for those at the bottom."

"The \$5.15 hourly minimum wage has not been raised in a decade. The most recent tax cut legislation that extends breaks on capital gains and dividends will provide the bottom 40% of taxpayers with less than \$20 in tax cuts over a three-year period. In contrast, more than two-thirds of the benefits of the tax cut will go to the top 5% of our nation's earners."

Officials at discount retail giant Wal-Mart reported that sales at stores open for at least a year rose 2.3 percent in May, the "low end" of the company's earlier forecast, and "noted that rising gas prices were starting to cut into customers' willingness to spend. 'Fuel prices continue to be a top concern for our customers,' Wal-Mart's executive vice president and chief financial officer, Tom Schoewe, said in a statement." (*Reuters*)

Wal-Mart provided a June forecast of 1 to 3 percent in sales growth. A commentator, Marion Schultheis, a fund manager for J. & W. Seligman & Co., observed, "It bothers me when Wal-Mart guides below 2 [percent]. It's a red flag for the consumer."

"The trend is reflecting the lower-income consumers not shopping," Pacific Growth Equities analyst Christine Chen told *Reuters*. "The higher-end consumers and the teens seem to have come out and shopped [in May], though not at the rate they did in April."

A recent survey by the National Retail Federation trade group indicated that three out of four US consumers plan to cut back on their spending.

Unsurprisingly, consumer confidence fell in May, according to the Conference Board's index, and by the

largest amount since Hurricane Katrina. "The US consumer is slowing down in response to higher prices at the pumps," commented Henk Potts, equity strategist at Barclays Stockbrokers in London. "It may be the next catalyst to put pressure on markets." (*Bloomberg*)

Further indicating potential difficulties ahead, factory orders fell in April, suffering their sharpest decline in three months. Orders for durable goods, items expected to last at least three years, fell by 4.4 percent. Residential home building fell by 1.1 percent in April, the largest decrease since January 2004.

Brian Fabbri, chief economist, North America, at BNP Paribas, told *Reuters*, "A bevy of economic data was released [June 1] all pointing to less economic activity in nearly every sector of the economy. The latest payroll data reflected a substantial slowdown in economic momentum ... it now looks as though the economy is headed for much slower growth in months ahead."

A number of mass layoffs have been announced in recent days. Server maker **Sun Microsystems** revealed plans May 31 to eliminate 4,000 to 5,000 jobs, a reduction of 11 percent to 13 percent in its workforce. **H.J. Heinz** of Pittsburgh reported June 1 that it would close at least 15 plants and lay off some 2,700 workers. Besides the 15 that it aims to shut by next year, Heinz is also looking to close an additional 5 plants the following year.

The country's largest savings and loan institution, **Washington Mutual**, has notified some 1,400 employees that they will lose their jobs as part of a cost-cutting plan. The workers are currently employed at facilities in a Seattle, Washington suburb and in Jacksonville, Florida. Drug maker **Schering-Plough** indicated Thursday it would slash 1,100 jobs at four plants in Manati and Las Piedras, Puerto Rico and Kenilworth and Union, New Jersey—about 3.3 percent of its global labor force. **Avon**, the world's largest direct seller of cosmetics, announced May 24 that it would lay off more than 900 employees as part of a restructuring program. The move, the company said, is part of an "ongoing process to take layers out of the organization."



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