GDP growth down, housing sector suffering

Only 113,000 jobs added in US in July

David Walsh
9 August 2006

Slowing job growth, stagnating wages, soaring corporate earnings—this is the situation that the Bush administration continues to tout as "vibrant," an economy "in full swing."

Contrary to predictions, the US economy added only 113,000 jobs in July, according to figures released by the Bureau of Labor Statistics (BLS) August 4. The official jobless rate climbed to 4.8 percent, from 4.6 in June. Many economists had anticipated an increase of 150,000 jobs, approximately the number of people entering the job market on average each month.

Some quarter of a million people joined the jobless rolls last month in the US; especially hard hit were African-Americans, whose unemployment rate jumped from 9 to 9.5 percent, the highest increase in eight months. Joblessness among African-American teenagers went up by 14 percent, to 31.6 percent, in July. Official overall teen unemployment remains around 15 percent.

The number of long-term unemployed, after a decline in June, returned to its May level of 1.3 million; these are people out of work for half a year or more. The long-term unemployed account for 18.6 percent of the total. The average number of months required to find a job increased from 16.2 to 17.3, the largest monthly jump since August 2005.

The effects of Hurricane Katrina, and the miserable performance by national and local officials, continue to have an impact on large numbers of people. Only 6 in 10 of the 1.1 million counted as evacuees at the time of the hurricane have returned to their August 2005 homes. The jobless rate for evacuees is 11.9 percent; the rate for those still not living in their former residences is 23 percent.

The increase of 113,000 jobs in July was in line with recent increases, but well below the average monthly gain for the 12 months ending in March (169,000). In 2005, excluding the two months affected by Katrina, monthly employment grow by 190,000 on average.

One of the areas beginning to suffer seriously is the housing sector. Construction job growth has been flat over the first half of 2006. According to the Economic Policy Institute (EPI), "Residential construction has been flat since April, and employment among residential contracting establishments is down 25,000 this year, including 9,000 last month. This dynamic affects not only construction jobs, but it also dampens job growth in ancillary sectors. Real estate employment, for example, has been flat since April, and job growth among credit intermediaries, such as those who arrange mortgages and refinancing, is also slower."

House sales are down by 10 percent this year and real home prices are falling. Residential investment (in building, renovation, etc.) in April-June 2006 fell for the third straight quarter, and by a hefty 6.3 percent.

Factory unemployment fell in July by 15,000 jobs, largely offsetting an increase in June of 22,000. Job losses last month occurred in transportation equipment (9,000), computer and electronic products (8,000) and textile mills (2,000).

Retail trade experienced no growth in July. The sector, according to the Center for Economic and Policy Research, has lost 85,000 jobs since February, with 72,000 of those lost jobs coming in "general merchandise stores."

The *Associated Press* cited the comments of Lynn Reaser, chief economist at Bank of America's Investment Strategies Group: "Companies are feeling the strain of rising costs for energy and raw materials as well as higher interest rates. They also remain uncertain about the economy's prospects for the balance of the year."

Hourly wage growth rose by 0.4 percent in July, and wages are up 3.8 percent from a year ago, still below the latest inflation figures (4.3 percent from June 2005-June 2006). Even this figure is apparently somewhat misleading. The EPI notes, "The acceleration in wage growth is partly related to the tightening of the job market over the past year, but also a function of job composition, as employment has grown more quickly in higher-end sectors, like professional services, than in lower-end ones, such as retail."

Manufacturing wages increased July 2005-July 2006 by only 1.5 percent, which tied with May 2005-May 2006 for the lowest annual gain in wages—before adjusting for inflation—in almost 20 years.

Statistics released in late July by the federal government's Bureau of Economic Analysis (BEA) underscored the general slowing down of the American economy. The BEA figures indicated that the US Gross Domestic Product increased by only 2.5 percent in the second quarter of 2006, less than half the growth rate of 5.6 percent in the first three months of the year.

In the second quarter, personal consumption expenditures in the US grew by only 2.5 percent, down from 4.8 percent in the first quarter; private investment growth fell sharply to 1.7 percent, from 7.8 percent. Exports increased by 3.3 percent, down from 14 percent in the first three months of 2006. The growth in federal government expenditures actually fell by 3.4 percent, compared to 8.8 percent growth in the first quarter.

The BEA figures also revealed only a 1.6 percent growth in domestic demand (final sales to domestic purchasers), a marked slowdown from the 5.4 percent reported in the first quarter.

The financial pages continue to be full of warnings about "inflation," by which the big business press means the danger of workers succeeding in gaining pay increases. EPI figures reveal that, in fact, from the first quarter of 2005 to the first quarter of 2006, unit labor costs added only 0.1 percent to prices, while rising profit margins contributed 2.3 percent to price growth. "In essence," comments the EPI, "the *entirety* of price inflation in the non-financial corporate sector over the last year can be explained by rising profit margins" (emphasis in the original).

USA Today carried an article August 7 on corporate earnings that tended to confirm this diagnosis. It complacently comments, "The streak lives. Investors can forget about oil prices, inflation and Mideast unrest for a while. Corporate America is still enjoying a record stretch of double-digit earnings growth that doesn't appear to be stopping anytime soon.

"More than 83 percent of companies have reported their second-quarter earnings, and they've turned in 13 percent growth, says Standard & Poor's. That's astounding, because it means they've reported double-digit earnings growth for a never-before-seen 17-consecutive quarters."

Leading the pack were nine giant companies, most in energy and finance, including ExxonMobil and Goldman Sachs. While working class families have struggled with record high temperatures and $3 or more for a gallon of gasoline, American corporations have raked in massive profits.

In the second quarter of 2006, "70 percent of companies have topped estimates," notes *USA Today*, "well above the 60 percent that beat estimates on average since 1994.... Companies haven't beaten estimates by this large a margin since the first quarter of 2004. Energy, again, was a big reason for this. Energy companies have turned in 40 percent growth, topping the 19 percent growth that analysts were expecting on April 1."

All of these economic facts, contrary to the wishful thinking of the Bush administration and its media apologists, have real consequences.

An op-ed piece in the *Providence* (Rhode Island) *Journal* August 5 by Jerry Landay, a retired CBS News correspondent, notes the "fading" of the American dream. Landay writes: "The material components of the Dream were steady jobs, inexpensive mortgages and other credit, cheap gasoline, secure pensions, and flag-waving confidence in imperial America—an invulnerable power, which could do no wrong.

"But the deadly albatross of Iraq, gasoline at over $3 a gallon, weak growth in jobs and pay, by companies that won't share productivity gains with workers and do export their work to Asia, have produced the sharpest drop in consumer confidence since the recession of the early 1980s."

He continues: "Adding insult to injury, the redistribution of our dwindling wealth under Bush widens the gap between the 'wealth aristocracy' and the rest of us.... "The rest of us are in a squeeze as inflation is driven by energy costs, medical care and prescription drugs. Home-foreclosure rates are growing; they jumped an average 13 percent a month nationally at the end of 2005, with highs of 30 percent in Massachusetts, 61 percent in Texas, 70 percent in Arkansas, 145 percent in New Mexico, and 210 percent in West Virginia."

A number of large corporations have recently announced mass layoffs. Time Warner's **AOL**, the Internet giant, reported August 3 plans to slash 5,000 jobs, or a quarter of its global workforce, within the next six months.

The company employs about 5,000 workers in northern Virginia, where its headquarters is located. It also maintains call centers in Oklahoma City; Ogden, Utah; and Tucson, Arizona. Some 3,000 AOL employees are in Europe. There are also offices in New York City and Silicon Valley in California. Time Warner as a whole employs some 87,000 people.

The **Electronic Data Systems Corporation (EDS)**, which runs other firms' computers, issued a third-quarter earnings forecast that was below analysts' expectations, and announced that it would cut from 3,000 to 4,000 jobs in the second half of 2006, while hiring more employees in India and China. The company had some 120,000 workers as of June 30.

On August 4 **Sun Microsystems** laid off some 950 workers, 430 in the Bay Area, as part of a restructuring plan that will eventually see the elimination of as many as 5,000 jobs. The Santa Clara, California-based company announced two months ago that it would slash its global workforce by approximately 13 percent in an effort to make the company consistently profitable again.

The Swiss Banking firm **Credit Suisse Group** reported August 2 that its second-quarter profits had more than doubled, and that it planned to cut 300 jobs in the US. Credit Suisse's chief financial officer did not reveal, in a conference call with the media, which employees would lose their jobs.