US jobless rate increases

Falling employment, stagnant wages fuel US corporate profits

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Non-farm employment in the US rose by only 88,000 jobs in April, far lower than the 110,000 jobs expected by economists and the slowest rate in more than two years, according to a Labor Department report released Friday. The official jobless rate rose by 0.1 percent to 4.5 percent last month and would have been even higher if more than 339,000 workers had not fallen out of the job market in April due to the lack of decent employment opportunities.

The Labor Department also made a downward revision of its job estimate for March—the second reduction in a row. The weakening job market, along with a collapse in the housing market and the weakest first quarter Gross Domestic Product growth in four years, has prompted some analysts to suggest that the six-year expansion of the US economy has come to an end and that a recession may be around the corner.

The lower than expected employment growth was welcomed on Wall Street because economic insecurity for workers tends to suppress their demands for higher wages, an outcome that will allow corporations to continue to accrue record-breaking profits. Average weekly earnings fell 0.1 percent in April and over the year, average hourly and weekly earnings grew by only 3.7 and 3.4 percent, respectively.

One analyst from *Insight Economics* said the US Federal Reserve Board would like to see a "gradual upward drift in the unemployment rate to about five percent" to reduce "the pressure on inflation," using the common euphemism for rising wages.

With wage increases in check, the Federal Reserve, which is scheduled to meet next Wednesday, is not expected to raise interest rates, a measure it could take to drive up unemployment further.

Layoffs jumped 44 percent in April, led by a surge in financial sector job cuts after Citigroup announced it would eliminate 17,000 positions, according to Challenger, Gray & Christmas Inc., an employment consulting firm.

Announced layoffs totaled 70,672 in April, up from 48,997 in March and about 18 percent more than the 59,688 announced in the same month a year earlier. The financial sector now leads all others in job cuts for the year, with 50,221. The automotive sector ranked second with 27,570 announced job cuts this year, Challenger said.

Financial sector cuts in April included more than 6,000 resulting from a weak housing market and its impact on mortgage lenders, Challenger said.

This week, sub-prime lender **New Century Financial Corp.**—which declared bankruptcy in March—will lay off about 2,000 of its employees after failing to find a buyer for its mortgage loan origination business, according to an Associated Press report.

Construction firms, hard hit by the slowdown in new housing starts, eliminated 11,000 jobs in April. The drop in construction employment is only the beginning, according to analysts who point out that the layoff of finish carpenters, electricians, plumbers and others is lagging behind the decline in housing starts, which only intensified after mid-2006. "Despite the drop in construction, there's a lot more to go in this sector," a Goldman Sachs analyst said. "The 11,000 decline pales in comparison to the hundreds of thousands of layoffs that would be needed to bring payrolls in this sector in line with reduced levels of output."

Industrial jobs continued to be slashed in April. The Labor Department reported that manufacturing firms cut 19,000 jobs in the tenth straight decline in employment. Machinery companies cut 5,000 jobs, motor vehicles another 5,000 and textile mills 3,000.

May began with new job loss announcements. **Intel** will lay off as many as 1,000 workers when it stops producing flash memory chips at a fabrication plant in New Mexico this August. **IBM** laid off 1,315 US workers from its global services division.

The cutback in jobs has coincided with a drive by employers to speed up the output of workers who remain on the job. US productivity grew much more sharply than expected in the first quarter, despite the slowdown in economic activity. This included a 2.7 percent rise in manufacturing productivity.

The increase in output, along with the stagnation of wages, allowed employers to keep the increase in unit labor costs to just 0.6 percent, following a 6.2 percent rise the previous quarter.

Hours worked fell 0.3 percent in the January to March period, the sharpest drop since the second quarter of 2003. Hourly compensation increased 2.3 percent, well below the rate of inflation. In real terms, compensation actually fell by 1.5 percent.

While conditions for American workers continued to worsen, Wall Street continues to celebrate massive corporate profits. The Dow Jones Industrial Average rose 23.24 points to 13264.62 for its fourth straight record close and the Dow's 23rd gain in the past 26 sessions—the longest run of its kind since 1944. The central stock market index is up 6.4 percent since the beginning of the year.

The disconnect between booming corporate profits and stock prices on the one hand and the general economic malaise on the other has been the subject of commentary by some more perceptive economists. *New York Times* columnist Paul Krugman, for example, pointed to a recent speech by one of the Bush administration's top economists, who repeated the often-made claim that higher profits lead to greater investment, high rates of productivity and rising living standards.

In fact, Krugman wrote, high profits had not led to high investment and rising productivity had not led to rising wages. "Since President Bush took office, the combination of rising productivity and stagnant wages—workers are producing more, but they aren't getting paid more—has led to a veritable profit gusher, with corporate profits more than doubling since 2000." Krugman further pointed out that profits as a share of national income in 2006 were at the highest level ever recorded.

However, rather than investing in physical capital—machinery, factories, research, and so on—Krugman pointed out, many companies are using profits to buy back their own stock in order to facilitate a temporary rise in stock prices, increasing the value of executives' stock options, even at the detriment of the long-term health of the company.