US employment report shows recessionary impact of housing and credit crisis

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The employment report for November, released Friday by the US Labor Department, showed a decline in job-creation over the previous month. Overall, non-farm payrolls rose by 94,000, sharply down from the 170,000 rise in October.

The official unemployment rate remained at 4.7 percent, but the Labor Department slashed its job-creation estimate for September from 96,000 to 44,000. The revised September figure was the weakest since February of 2004.

Employment in the goods-producing sector fell by 33,000, including a 24,000 drop in construction and a decline of 11,000 in manufacturing. Construction jobs fell in November for the fifth consecutive month, reflecting the virtual collapse in home building. A new report released Thursday by Moody's Economy.com called the current housing slump "the worst downturn since 1945."

Employment in the financial services industry also fell, by 20,000, a result of mounting layoffs by banks and other financial institutions that have been forced to write off billions of dollars in subprime mortgage-linked assets.

Employment rose by 127,000 in service-providing businesses, including education and health services, retail trade and professional services. Government employment also increased.

The jobs figures were slightly higher than Wall Street projections. The general reaction on the New York Stock Exchange was relief that the figure was not sufficiently dire to suggest an imminent plunge into full-scale recession, and not so strong as to dissuade the Federal Reserve Board from announcing its third successive interest rate cut when its policy-making committee meets next Tuesday.

However, most analysts concluded that the somewhat better-than-expected jobs report would result in a cut of 25 basis points in the key federal funds rate, rather than the 50 basis point cut hoped for on Wall Street. The major indexes on the exchange ended the day only minimally changed. The Dow Jones Industrial Average rose by 5.69 points, the Nasdaq Composite Index declined 2.87 points and the Standard & Poor's 500 Index fell 2.68 points.

Average hourly wages for rank-and-file workers ticked up 8 cents, to $17.63, only slightly above the inflation rate. Taking inflation into account, wages have fallen by 6 cents since November of 2006.

Other indices pointed more sharply in the direction of recession. The Reuters/University of Michigan consumer confidence index fell to 74.5 for December, down from 76.1 in November. Excluding the figure for October 2005, it was the worst report in 15 years.

Another report predicted that overall average earnings for the companies included in the Standard & Poor's 500 Index would fall by 0.8 percent for the fourth quarter. This follows a drop of 4.5 percent for the third quarter. The last time earnings for the S&P 500 companies fell in two consecutive quarters was the last quarter of 2001 and the first quarter of 2002—immediately after the September 11, 2001 terrorist attacks.

"The recession clock in the US ticks steadily to midnight," said William O'Donnell, strategist at UBS bank. "We see developing economic weakness among key US trading partners as another link in the chain that ends with a recession in the US with the vital export sector as a transmission."

Peter Boockvar, an equity strategist with Miller Tabak & Co. in New York, said conditions were becoming "stagflationary," with growth slowing and prices rising.

Analysts believe US economic growth is slowing dramatically, with most predicting it will fall to 1.5 percent or lower for the current quarter.

The slide to recession was underscored by major job cut announcements over the past week. Bristol-Myers Squibb said Wednesday it would cut 4,300 jobs, eliminating 10 percent of its work force. At least 35,000 jobs have been slashed by US-based pharmaceutical companies this year, and 100,000 since 2000.

Abbott Labs announced it will cut 1,200 jobs in Ireland and California. Seven hundred of the job cuts will be carried out at the company’s facility in Temecula, California.

Dow Chemical Co. said it will eliminate 1,000 jobs and close a number of plants in the US and around the world. One of the plants slated for closure is located in Louisiana.

Bear Stearns, the Wall Street investment bank, announced on November 28 that it will cut 650 jobs, or 4 percent of its staff. This marks the third round of cuts at Bear Stearns, which has announced 1,490 layoffs since August, nearly 10 percent of its total work force.

In addition, the Big Three US auto makers have all announced plans to curtail production of full-size pickup trucks, among their most profitable vehicles, for part or all of January because of weak sales.