Sharp rise in unemployment rate

US jobs report shows slide into recession

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The official US unemployment rate shot up 0.3 percentage points in December to a two-year high of 5 percent and job growth virtually ceased, according to the Labor Department's monthly report, issued on Friday.

The dire employment report, coming on the heels of record petroleum prices, a sharp rise in consumer and wholesale prices, weak holiday sales, and data showing a falloff in manufacturing and further declines in the housing market, sent stock markets in the US and Europe tumbling.

On New York markets, the Dow Jones Industrial Average fell 257.44 points, or 2 percent, the Standard & Poor's 500 Index declined by 35.53 points (2.46 percent), and the technology-laden Nasdaq Composite Index plunged 98.03 points, or 3.77 percent.

Friday's sell-off followed sharp drops on the final trading day of 2007 and the first day of trading in the new year. In just three trading days this year, the Dow Jones index has erased more than half of its gains for all of 2007. It is already down 3.5 percent in 2008.

Wall Street analysts had expected a weak jobs report, with only 70,000 new jobs and a rise in the jobless rate from 4.7 percent in November to 4.8 percent for December. But the Labor Department report was far worse, showing that a mere 18,000 new non-farm jobs had been created in December.

Private sector jobs actually declined by 13,000, the first monthly net cut in jobs by private employers since 2003. Government jobs grew by 31,000, accounting for the negligible overall increase.

Goods producing payrolls fell by 75,000, including a 49,000 drop in construction and a 31,000 decline in factory jobs. Retail jobs fell by 24,300 and financial services payrolls shrank by 4,000. Service industry jobs rose by 93,000.

Overall, December registered the lowest monthly increase in jobs in over four years, and the total increase in payrolls for 2007 was the lowest since 2003.

The slump in manufacturing was broadly based. Of 84 manufacturing industries, only 31.5 percent were hiring in December.

Wall Street also reacted negatively to the Labor Department's data on wages. They showed a 0.4 percent increase (7 cents) in December, considered dangerously high by the corporate-financial establishment. Analysts had anticipated a gain of only 0.3 percent. In fact, wages for all of 2007 rose by only 3.7 percent, compared to 4.3 percent in 2006.

Under conditions of rising inflation, with consumer prices up by an annual rate of 4.3 percent in November, and soaring prices for gasoline, food and other necessities, the buying power of American workers is continuing to fall.

The jobs report shows that the collapse of the US housing market and the consequent credit contraction and banking crisis, resulting from the failure of hundreds of billions worth of speculative investments linked to subprime home mortages, has spilled over into the general economy and is rapidly leading to a recession.

The jobless rate has risen by 0.6 percent since March of 2007. Robert Brusca of FAO Economics noted, "When unemployment rises by more than 0.5 percent from its cycle low, a recession generally ensues."

The consequences of a slump in the US are potentially massive, deep and protracted, since it will reverberate internationally and compound an already raging financial crisis that threatens the solvency of major banks in the US and Europe.

The crisis in the banking system continues to deepen and spread. This week, National City Corporation, a regional bank with 1,400 branches, mostly in Florida, Illinois, Indiana, Kentucky, Michigan, Missouri, Ohio and Pennsylvania, announced that it was shutting its wholesale mortgage division and slashing 900 jobs.

This brings to 3,400 the number of jobs the bank has eliminated in recent months as a result of housing-related losses. The job cuts represent 10 percent of the bank's previous staff. National City also said it would cut its dividend nearly in half.

The slide into recession is compounded by a build-up of inflationary pressures and an ongoing decline in the US dollar. The dollar has resumed its downward slide against the euro, the yen and other currencies in the new year. Falling international confidence in the US currency is a major factor in the continuing surge in oil and gold prices, which hit record highs on Wednesday, with petroleum reaching the 100-dollar-a-barrel mark.

Prices of virtually all basic commodities are soaring. Oil, which hit $61 a barrel at the end of 2006, is up 267 percent since 2001. Wheat, corn, rice, and metals such as copper are also surging. The year 2007 saw a 75 percent increase in wheat and soybean prices.

American consumers are being hit with the biggest jump in food prices in 17 years. As of last November, eggs were up 38 percent from the year earlier, and milk was 30 percent higher.

With home prices tumbling, working families can no longer compensate for stagnating wages, rising prices and growing indebtedness by refinancing their home loans. Home foreclosures are at record rates and experts predict between 1 and 2 million more families will lose their homes in the coming year. Even before the full force of recession has hit, personal bankruptcy filings in the US are rising at a record rate.

A further indication of the depth and breadth of the crisis can be gleaned from economic figures released over the past two weeks.

* Holiday sales: Spending from Thanksgiving to Christmas rose just 3.6 percent over last year, the weakest performance in at least four years, according to MasterCard Advisors. By comparison, sales grew 6.6 percent in 2006 and 8.7 percent in 2005.

Excluding gasoline purchases, overall holiday sales rose a mere 2.4 percent, the credit card company said. With spending during November and December accounting for 20 percent of retailers' annual revenue, the poor holiday sales augur a slump in consumer spending, which accounts for some two-thirds of the US gross domestic product.

* Auto sales: US sales of cars and light trucks fell in 2007 to their lowest level in nine years. General Motors sales fell 6.0 percent, Ford was down 11.8 percent, and Chrysler declined by 3.1 percent. The industry reported a 3 percent drop in sales in December. Most forecasters predict a further slide in 2008.

* Manufacturing: The Commerce Department reported that durable goods orders declined 0.1 percent in November, the fourth consecutive monthly decline. The Institute for Supply Management said its manufacturing index for December fell below the break-even point of 50, dropping to a nearly four-year low.

* Housing: New home sales fell 9 percent in November to a 12-year low. They were down 34.4 percent from their year earlier level. Sales of previously owned homes rose slightly in November from their October level, but were down 20 percent from November 2006. There has been a combined 34 percent drop in combined new and existing home sales from the July 2005 peak.

The median price of previously owned homes fell 3.3 percent in November from a year earlier.

Mortgage applications slid 11.6 percent in the week ending December 28.

The dismal jobs report has sparked new demands from Wall Street for the Federal Reserve Board to cut short-term interest rates. Since September, the Fed has cut its benchmark federal funds rate three times, reducing it a full percentage point to 4.25 percent. It has also flooded financial markets with cash and credit, most recently auctioning off $40 billion at low rates in two separate auctions. It plans to hold two more auctions this month, injecting an additional $60 billion into the banking system.

It is now considered a near certainty that the Fed will announce a further cut when its policy-making committee meets again at the end of January. But Wall Street wants a cut of at least 50 basis points, rather than the more conventional quarter-point reduction.

The Fed's cheap credit policy carries huge risks, however, raising the specter of a run on the dollar and/or an explosive surge in inflation.

The simultaneous recessionary and inflationary crisis is the result of years of rampant speculation, compounded by various forms of accounting fraud and predatory lending policies by banks and mortgage companies. The crisis is an expression of the increasingly parasitic character of American capitalism, which generates huge fortunes for the wealthy few by speculative means that are divorced from and antagonistic to socially useful production.