US: 17,000 jobs lost in January

Andre Damon
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Some 17,000 jobs were wiped out in the US last month, according to nonfarm payroll figures released Friday by the Labor department. Analysts were expecting a reported increase of 70,000 jobs in January, and the unexpectedly low figure indicates that problems arising in the housing and financial sectors are spreading to other sections of the economy, including retail and manufacturing. It was the first month of negative job growth since 2003.

The Labor Department report indicates that jobs were eliminated in the construction, manufacturing, and government sectors, while job growth continued, albeit at a reduced pace, in the service and retail sectors. Professional service jobs - including those in finance, banking, and real estate, fell by 11,000, due largely to slowdowns arising from the collapse of the housing bubble and consequent losses in the financial sector.

Eighteen-thousand government jobs were cut in January, largely in response to falling property values and the ensuing decrease in tax revenues. The report notes that the number of jobs in the state-level education sector fell by 26,000 last month. In the retail sector, apparel stores lost over 9,000 jobs, and department stores also reported decreases in employment.

Figures released Friday also indicate that the unemployment rate fell in January to 4.9 percent, down from 5 percent in December. The discrepancy between unemployment and payroll figures, if not due to normal statistical error, may indicate that structural unemployment increased as people stopped looking for jobs at a greater rate than people were laid off. This effect has to do with the nature of unemployment statistics, which only reflect joblessness among people actively looking for work.

The labor department made corrections to its nonfarm payroll statistics from previous months in its report on Friday, revising figures for December upward and downward for November. Employment figures for 2007 as a whole were revised downward. The Commerce Department reported that spending on residential construction fell by 1.1 percent in December, while nonresidential construction spending remained almost unchanged. Payrolls in December were revised up to an 82,000 increase, up from an original figure of 18,000. The size of the November job growth was revised downward by nearly half, to 60,000.

Labor market statistics released during the past week have, however, sent mixed signals. The payroll services company ADP reported Wednesday an increase of 130,000 jobs last month, compared to an expected increase of 40,000. The next day, the Commerce department released weekly figures indicating that the number of people applying for unemployment benefits increased by 71,000, the most since 2005.

Friday’s payroll figures are part of a recent slew of bad economic news. The US economy grew at a rate of only 0.6 percent in the fourth quarter of 2007, and the downward trend is likely to continue throughout the coming months. Meanwhile, a number of economic forecasts, most notably those of the International Monetary Fund released Tuesday, have been recently revised downward in anticipation of slower growth.

Friday’s report also notes that workers’ average income decreased in real terms throughout all of 2007. Wages rose in nominal terms by 3.7 percent, a rate that failed to keep up with consumer prices, which increased by 4.1 percent in 2007. Last month, wages increased by only .2 percent, which would translate to a yearly rate of 2.4 percent. This figure is below this year’s average and significantly lower than inflation. Overall compensation costs, which include benefits, rose in 2007 by 3.3 percent, a rate even slower than wages. The average workweek decreased by 0.1 hour, down to 33.7 hours.

The rise in consumer prices - driven largely by increases in essential goods like food and fuel - coupled with greater rates of unemployment and falling real incomes, will have the effect of further driving down economic growth. “The incoming data continues to show the economy slowing sharply,” Nigel Gault, US economist at Global Insight, told the *Financial Times*. “Whether it is just stalled or heading into recession isn’t yet clear. But we should expect to see more bad news on the labour market - at least through the middle of the year - before the heavy doses of monetary and fiscal stimulus begin to kick in.”

The Federal Reserve cut interest rates by .5 percent at its regular meeting on Wednesday, following an emergency .75 percent cut last week. This brings the total reduction to the federal funds rate since September to 2.25 percent. In concurrence with the Federal Reserve, Congress and the White House have been putting together a $150 billion fiscal stimulus package. Both of these measures aim to avert negative growth in the short term, but as ominous economic indicators pile up, it is becoming increasingly unlikely that these actions will have a significant impact on the slide into recession.