US: 63,000 jobs lost as economy continues downslide

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Total US employment fell by 63,000 jobs in February, the second consecutive monthly decline and worst showing in five years, according to a Labor Department report released Monday. The figure demonstrates that the recession in the US economy is worsening and that the corporate onslaught against the jobs and living standards of working people will intensify.

The stock market plunged 147 points, following Thursday's drop of 215 points, in a decline that has taken the Dow-Jones Industrial Average to well below the 12,000 mark. The New York Stock Exchange closed at 11,893.69, its lowest point in nearly two years, and more than 2,100 points down from the peak last October 11. The total losses on all stocks traded are approaching three trillion dollars in less than five months.

The wave of selling was fueled by the jobs report, although Wall Street frequently celebrates such indicators of job market distress because rising unemployment dampens wage demands and business costs and makes it possible for the Fed to cut interest rates without sparking inflation.

In the current context, however, such concerns are dwarfed by the fear that rising unemployment will trigger a further wave of defaults on mortgages, credit cards and other consumer debt, exacerbating the credit crisis that has unfolded over the past eight months since the crisis in the sub-prime mortgage market erupted. Moreover, inflation is raging, symbolized by the soaring price of oil, over $106 a barrel in trading Friday, and the price of gold, now approaching $1,000 an ounce.

To be blunt, what Wall Street fears now is not a recession—it is already widely accepted that the US economy slipped into recession last fall—but the collapse of major financial institutions and market dislocations which could set the stage for a full-scale worldwide depression, of a kind not seen since the 1930s.

In an effort to stave off the wave of selling triggered by the jobs report, the Federal Reserve announced Friday that it would make $100 billion in new credit available to major banks this month, on top of $160 billion in short-term loans it has extended in occasional auctions since December. The Fed also announced that it will increase the size of the short-term lending in auctions set for March 10 and March 24 from $30 billion to $50 billion apiece.

Fed Chairman Ben Bernanke has already indicated that the central bank will likely cut interest rates again at the next meeting of its Open Market Committee, now set for March 18. The Fed has cut rates by 1.25 percent in the last two months (2.25 percent since October) in an increasingly desperate effort to stimulate the financial markets.

The job report was particularly jolting to financial markets because most economists had predicted a small rise in payrolls, with forecasts estimating the increase at 25,000 jobs. Some 52,000 net jobs were eliminated in manufacturing, as well as 39,000 net jobs in construction, on top of a loss of 25,000 jobs in January.

Despite these numbers, the official jobless rate actually declined slightly, from 4.9 percent to 4.8 percent, because 450,000 unemployed stopped looking for work in February and accordingly were excluded from the count, which is based on the number of people actively seeking jobs.

The Labor Department report also found that January's net job losses were worse than initially reported, 22,000 compared to 17,000, meaning that 85,000 net jobs have been eliminated since the first of the year. The agency also cut in half its estimate of net job creation in December, from 82,000 to 41,000.

The US economy must generate an increase of 150,000 new jobs each month just to keep pace with population growth, so the figures reported mean that over the past three months job creation fell short of the number of workers seeking employment by nearly half a million jobs.

The top economic adviser to President Bush, Edward Lazear, chairman of the White House Council of Economic Advisers, told the press Friday that the US economy might actually shrink in the first quarter, the first time that any top official has admitted that the US growth rate would fall below zero. "We don't really know whether it will be negative or not," he told reporters. "We have definitely downgraded our forecast for this quarter."

The official government definition of a recession is two consecutive quarters of zero or negative growth, a figure increasingly likely for the first half of 2008. J.P. Morgan's chief economist, Bruce Kasman, told the Associated Press, "It is appropriate to characterize the US economy as having entered a recession in the first quarter."

The jobs report was only one of a series of economic reports and market events that have shaken financial markets in the last few days. Particularly significant was the default by two major companies caught in the aftershocks of the mortgage crisis.

Thornburg Mortgage, the second-largest independent mortgage lender in the US, after Countrywide, revealed Wednesday that it was in default on $610 million in loans after failing to meet a margin call from one lender, J. P. Morgan. The company, based in Santa Fe, New Mexico, said it would restate its 2007 financial results and take a charge of $428 million to reflect losses on adjustable-rate mortgages.

CEO Larry Goldstone issued a bitter statement Friday warning that the company might be unable to continue as a going concern, and declaring, "The panic that has gripped the mortgage financing market is irrational and has no basis in investment reality."

Thornburg specializes in luxury homes and has relatively few sub-prime mortgages. Its margin calls began after the Swiss bank UBS announced a write-down February 14 on the value of $26.6 billion in "Alt-A" mortgages—higher-priced and higher value than sub-prime. Since then, Thornburg's share price has been driven down from $11.54 to $1.22 Thursday.

On Thursday, Carlyle Capital, a subsidiary of the giant hedge fund Carlyle Group based in the British Channel Islands, said it had failed to meet margin calls from banks on $21.7 billion in mortgage-backed securities. The company was heavily engaged in purchasing mortgage-backed bonds issued by Fannie Mae and Freddie Mac, the two huge government-sponsored institutions that underwrite much of the US home mortgage market. Carlyle Group is expected to provide credit to prevent a default of Carlyle Capital, but the crisis casts a shadow over the most important financial institutions in the US mortgage industry.

A report Thursday by the Federal Reserve showed that household net wealth fell for the first time in five years, dropping $532.9 billion, or 3.6 percent, in the fourth quarter of 2007. The collapse of real estate values accounted for a third of the decline, while the decline in financial assets accounted for nearly half.

The Fed report also found that for the first time since such records began in 1945, American homeowners owed more on their homes than they owned. Average net home equity dropped below 50 percent—a figure that is even more remarkable since one third of US homeowners have either paid off their mortgages or bought without a mortgage, and therefore have 100 percent equity.

Other figures reported include:

* An increase in the proportion of mortgages in foreclosure to 2.04 percent, an all-time high and nearly double the level of 1.19 percent a year ago. The proportion of loans either past due or in foreclosure hit 7.9 percent in the fourth quarter, up from 6.1 percent a year earlier, and the highest since figures were first collected in 1979.

* A published estimate that mortgage losses would cost the banks $400 billion, about 40 percent of the $1 trillion in combined capital of all banks insured by the FDIC. Bank lending would be cut by $900 billion as a result.

* The Federal Reserve "beige book" report on business conditions in the United States, released Wednesday, found weak or no growth in 8 of 12 regions.

* Factory orders for January plunged 2.5 percent, according to the Commerce Department, while orders for durable goods fell more than 5 percent.

* Credit-card borrowing soared 7 percent in January, up from an increase of 2.8 percent in December, as consumers had to resort to charge cards to finance their expenses. Consumer debt overall rose 3.3 percent, nearly double the growth rate of 1.8 percent in December.

The reaction in official Washington to the dismal developments was a combination of imbecilic rhetoric and inadequate action. President Bush made a hastily organized appearance before television cameras to understate the obvious, admitting "It's clear our economy has slowed," and adding, "Losing a job is painful and I know Americans are concerned about our economy. So am I."

Declaring, "our economy will prosper," Bush touted the economic stimulus package approved by Congress last month at the instigation of the White House, although the size of the package, $168 billion, is less than one third of the decline in net worth of the fourth quarter, and entirely dwarfed by the trillions wiped out in the real estate collapse.

Bush urged taxpayers to buy consumer goods with their $600 or $1,200 rebates when they get them, which will not be until May or June, although surveys already predict that the vast majority will use the money to pay urgent bills.