159,000 drop in US payrolls signals deepening recession

GM to close Ohio plant by year’s end

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The US Labor Department on Friday reported a net loss of 159,000 non-farm jobs in September, as payrolls shrank in virtually every sector of the private economy. The jobless survey, considerably worse than forecast by economists, reflected the gathering strength of a recession that is global in scope and is poised to worsen.

The government report, based on a survey conducted prior to the collapse of credit markets in the wake of the September 15 bankruptcy filing of Lehman Brothers, does not fully account for the impact of the widening financial crisis on the broader economy. Many economists predict that layoffs will accelerate in the coming weeks, with the official unemployment rate rising from the current 6.1 percent to 7 percent or more in early 2009.

The relentless job-cutting in the US-the report for September registered the ninth straight month of payroll declines-is indicative of a systemic crisis of the capitalist system that erupted first in the United States but is increasingly reverberating around the world. The Eurozone countries are now in recession and layoffs are mounting in most of the major industrialized countries, particularly in the financial sector and the auto industry.

This week alone, the Swiss banking giant UBS announced it would cut 2,000 more jobs-a further 10 percent of its investment banking work force. The bank, which has written off $43 billion in bad loans over the past year, earlier announced 4,000 job cuts at its investment bank.

Lehman Brothers' European fixed-income division announced it would wind down its operations, laying off 750 employees.

Recent surveys have shown that manufacturers across the world's advanced economies, including the US, Europe and Japan, are slashing output. The slump has hit particularly hard in the auto sector.

This week, Volvo Trucks announced it was cutting more than 20 percent of its European blue-collar staff--some 1,400 employees at its three plants in Belgium and Sweden. Volvo cars, owned by Ford, last month accelerated plans to cut 2,000 jobs and said it would need to cut an additional 900 next year. Auto components plants that supply Volvo said they were cutting jobs.

Ford and Volkswagen have both cut jobs at their car plants in Belgium.

In the US, General Motors announced Friday it would close its sports utility vehicle plant in Moraine, Ohio by the end of this year, laying off 1,200 employees, most of them hourly workers.

The slump in auto sales over the summer has been accelerated by the freezing up of credit markets, making it more difficult for consumers to obtain loans to purchase new cars. Auto sales in September plummeted in both the US and Europe. They declined 32 percent in Spain, 6 percent in Italy and 2 percent in Germany.

Auto companies in Britain are cutting output, introducing three- and four-day work weeks in some plants. Ford is scaling back production across Europe.

In the US, the sales figures for September were even worse than in Europe, hitting Japanese as well as American auto makers. Overall sales of cars and light trucks fell 27 percent last month, compared to a year earlier.

The biggest drop among the US Big Three companies came at Ford, which reported a 34 percent decline. Chrysler sales fell 33 percent and GM reported a 16 percent drop.

Among Japanese producers, Toyota sales in the US were down 32 percent, Nissan Motors saw a 37 percent decline, and Honda sales were down 24 percent.

Major US dealerships are starting to go out of business, and analysts expect that trend to accelerate.

The US Labor Department jobless report registered the biggest monthly drop in payrolls in more than five years. It brought the net job loss so far this year to 760,000. The shrinkage in payrolls was spread throughout most of the economy.

Manufacturing lost 51,000 jobs. Construction fell by 35,000 jobs. Retailers shed 40,000 workers. Leisure and hospitality industries cut 17,000 jobs. Professional and business services reduced their payrolls by 27,000.

Service sector employment, which until recently had seen smaller declines than in goods-producing industries, fell 82,000 in September, the biggest drop in more than five years.

Employment in manufacturing in the US is now down by 442,000 from its year-ago level. Of this, the auto sector has lost 140,000 jobs.

The official unemployment rate remained at 6.1 percent, but this measure vastly underestimates the real level of joblessness, because it does not count laid off workers who have stopped looking for a job or those working part-time because they cannot get full-time employment.

The number of people working part-time because they couldn't find a full-time job or because their hours had been cut back due to slack business conditions jumped by 337,000 to 6.1 million.

A more accurate gauge of unemployment included in the Labor Department report, the so-called under-employment rate, rose to 11 percent from 10.7 percent, the highest rate for that measure since April 1994.

Another measure of the slumping jobs market and growing economic distress, the average hourly work week, slipped by 0.1 hours to 33.6. A mere 3-cent gain in average hourly salary, combined with the shorter work week, means that the average weekly paycheck fell by 81 cents to $610.

Unemployment for men rose by 0.5 percent to 6.1 percent. The jobless rate for black men jumped 1.6 percent to 11.9 percent, the highest since February of 1994. Unemployment among workers with high school degrees only stood at 9.6 percent.

"The US economy is shrinking, and there will be many more awful reports like this," said Ian Shepherdson, chief US economist at High Frequency Economics.

Other economic data released this week confirm this prognosis. The Commerce Department reported that US factory orders fell by 4.0 percent in August, far more than the consensus forecast of economists, who predicted a 2.5 percent decline.

The Institute for Supply Management said its survey of US manufacturers indicated output falling at its fastest rate since October 2001.

The number of US workers filing new claims for unemployment benefits neared the half-million mark last week, hitting a fresh seven-year high.

Earlier this month, the job placement consultancy firm Challenger, Gray & Christmas reported that job cuts announced by US employers in August jumped 12 percent over a year ago to cap the biggest summer of downsizing in six years.

Employers announced plans to reduce their work forces by 88,700 jobs in August. For the summer period of May through August, job cuts totaled 377,000, up from 249,000 in the summer of 2007. That lifted the total of announced cuts in 2008 to 668,000, up 29 percent from 516,000 in the first eight months of 2007.

The vicious cycle of contracting credit, resulting from the implosion of the housing and credit bubbles, mounting layoffs, slumping consumer spending and a worsening of the financial crisis continues to deepen. There are many signs that the credit crunch will continue to undermine major companies.

A growing list of hedge funds, hit by their exposure to Lehman Brothers and other failed firms, are facing rising withdrawal requests and are telling their customers they cannot have their money back.

Billions of dollars in contracts on now-defaulted credit default swaps on Fannie Mae, Freddie Mac, Lehman Brothers and Washington Mutual are due to be settled this month, with the likely result of billions in additional losses for major financial firms.

The collapse of confidence in the credit-worthiness of major banks has led to a virtual freeze in the market for commercial paper, short-term debt issued by a wide range of companies to finance their day-to-day operations. The market for commercial paper in the US has fallen from $2.2 trillion last summer to $1.6 trillion today.

The drying up of credit is throwing small and large companies, state and local governments, colleges and other institutions into a sudden crisis, where they lack the cash needed to meet payrolls, pay bills and buy essential items. One corporate giant whose viability is now suspect is General Electric, which this week announced an emergency plan to raise capital by selling $12 billion in common stock. In a sign of the times, billionaire investor Warren Buffet agreed to inject $3 billion of capital into GE, through the purchase of preferred stock (on highly favorable terms), in a bid to restore market confidence and stem a sharp decline in GE stock.

As the *Wall Street Journal* wrote: "Indeed, this week, General Electric Co., long hailed as one of the steadiest companies in America, was forced to raise billions of dollars of capital on onerous terms partly because investors in GE's short-term corporate debt fretted about its rising borrowing costs. On Wednesday, a money fund catering to educational institutions froze withdrawals-sending more than 1,000 colleges and schools scrambling to ensure they have cash to pay teachers and cover expenses."

On Thursday, California Governor Arnold Schwarzenegger sent a letter to Treasury Secretary Henry Paulson warning that the largest state in the US might be forced to ask for a $7 billion emergency loan from the federal government.

There is little belief in financial markets that the $700 billion-plus US government handout to Wall Street, approved by Congress and signed into law by President Bush on Friday, will resolve the financial crisis or avert a long and protracted recession. The Dow Jones Industrial Average was actually up more than 200 points before the House of Representatives voted to approve the bailout, but it fell steadily thereafter, closing with a loss of 157 points.