New US jobless claims top 400,000 for seventh straight week

Kate Randall
27 May 2011

New US claims for unemployment benefits rose last week by 10,000, climbing to a seasonally adjusted 424,000, as the nation's job markets continue to stagnate. This marked the seventh straight week in which new claims have topped the 400,000 mark, further undermining claims of an economic turnaround by the Obama administration.

On Thursday, the US Department of Labor revised the previous week's jobless claims number up from an originally reported figure of 409,000. Economists had predicted that claims last week would decline to 400,000 rather than rise.

Labor Department officials could point to no exceptional factors accounting for last week's rise in claims. While floods and tornadoes have devastated several Midwestern and Southern states over the past month, no states cited the impact of this extreme weather as a factor in the increase.

In the week ended May 14, the number of people continuing to receive jobless benefits dropped by 46,000 to the lowest level in a month, 3.69 million. This count of continuing benefits, however, does not include people receiving extended jobless benefits under federal programs. More than 4 million people who have exhausted their traditional benefits were collecting emergency and extended benefits in the week ending May 7.

Federal Reserve officials noted the unemployment rate "remains elevated" at 9 percent. Russell Price, a senior economist at Ameriprise Financial, told Bloomberg, "Claims are still unfortunately seeing some upward pressure from state and local government job cuts."

Corporate profits rose at an annual rate of $1.70 trillion in the first quarter, the highest level since records began in 1947, the *Wall Street Journal* reported. After taxes, total company profits rose by 5.9 percent in the first quarter to $1.45 trillion, the biggest increase in a year. Sitting on record cash hoards, the corporations are doing little hiring and instead are relying on increased productivity and wage and benefit cuts to boost income.

Government budget cuts, combined with high gas prices and weaker than expected consumer spending, caused the economy to grow weakly in the first quarter of the year, expanding at an annual rate of only 1.8 percent in the January-March quarter.

Consistent gains in hiring are needed to support improved consumer spending, which accounts for 70 percent of the US economy. In addition to being squeezed by $4.00-plus gas prices, working class families are seeing few pay increases or job opportunities and face a depressed housing market.

Consumer spending grew at only half the rate as during the previous quarter, and an increase in imports widened the trade deficit. Most economists believe the economy is growing only marginally better in the current April-June quarter, at around 2.5 percent.

Revised government estimates for gross domestic product—the economy's total output of goods and services—showed consumer spending growing at an annual rate of just 2.2 percent, down sharply from an initial estimate of 2.7 percent. Consumer spending had grown at a much faster rate of 4 percent in the October-December period of last year.

The government's revised GDP figures showed the government sector dragging, with spending falling at an annual rate of 5.1 percent, as federal, state and local governments slash spending to deal with budget deficits. Forty-four states are projecting budget shortfalls totaling $111.9 billion combined for fiscal year 2012, which begins July 1, 2011, in most states.

A study by the American Association of School Administrators on the impact of the economic downturn on schools projects that a staggering 294,500 education and education-related jobs face the ax in the upcoming 2011-2012 school year. School districts across the US are struggling as federal stimulus funds dry up and new budget cuts are imposed.

In additional to the bleak jobs outlook, orders for durable goods fell 3.8 percent in April, the largest amount in six months. Businesses cut back on orders for heavy machinery, computers, cars and airplanes, among other long-lasting manufactured goods.

The April decline left durable goods orders at $189.9 billion, 18.3 percent above the recession low in March 2009. The April decline followed a 4.4 percent increase in March.

The March earthquake in Japan influenced the drop. Demand declined 4.4 percent in April for motor vehicles and parts, a manufacturing sector heavily dependent on Japanese components. This was the biggest fall since last August.

With new orders slowing sharply at Boeing, demand for commercial aircraft fell 30 percent in April. Orders for nondefense capital goods, excluding aircraft, fell 2.6 percent in April following a 5.4 percent jump in March.

Other industries registering a fall in demand in April included primary metals such as steel, down 1.5 percent, computers, down 4.4 percent, and machinery, 3.4 percent.

In the housing market, the glut of foreclosed homes held by the country's biggest banks and mortgage lenders threatens to deepen the housing slump, creating further pressure on the economy. According to RealtyTrac, banks and lenders own more than 872,000 homes as a result of foreclosures, and will foreclose on several million additional homes over the next few years.

The rise in lender-owned homes could create a situation where the growing inventory of distressed properties could further depress home values and lead to even more distressed sales. Real estate prices have been declining across the country as the spring selling season gets under way.

According to March data from Realty Trac, lenders in Atlanta are repossessing eight homes for every repossessed home they sell. In Minneapolis, for every foreclosed home they sell, they are seizing another six that have gone into foreclosure. Before the housing meltdown, this ratio was generally one-to-one.

While working families struggle under the weight of job losses, foreclosure and rising expenses for gas, utilities and other basic necessities, the banking industry posted its best quarter of profits since early 2007.

In the first quarter of 2011, banking earnings totaled $29 billion, up nearly 67 percent from a year earlier. The increase marked the seventh straight quarter of improvements over the levels of a year earlier.