March 14, 2008

Job losses: Worst in 5 years
Payrolls sink in February, fueling recession anxiety. Unemployment rate declines, but that's because there are fewer people in the workforce.
By Chris Isidore

NEW YORK (CNNMoney.com) -- Employers made their deepest cut in staffing in almost five yearsin February, the Labor Department reported Friday.

There was a net loss of 63,000 jobs, which is the biggest decline since March 2003 and weaker than the revised 22,000 jobs lost in January. Economists had forecast a gain of 25,000 jobs.

The weak report fueled already mounting recession fears and is likely to keep the Federal Reserve cutting interest rates further when it meets later this month.

"Based on today's Employment Report, if we are not in a recession, it is a darned good imitation of one," said Kevin Giddis, managing director of fixed income at Morgan Keegan. "We are in an unprecedented real estate and credit crisis that is whipping its way through the U.S. economy like a Midwestern tornado."

Job losses were widespread, reaching beyond the battered construction sector, which lost 39,000, and manufacturing, where job losses hit 52,000. Retailers cut 34,000 jobs.

Temporary staffing firms cut nearly 28,000 from their payrolls, another warning sign of employers pulling back. Hotels cut about 4,000 jobs, a sign that discretionary consumer spending could be on the wane. Overall the private sector cut 101,000 jobs, with only a gain in government employment limiting losses.

"Job growth appears to have weakened across nearly every industry with the exception of health care and government," said Keith Hall, the commissioner of the Bureau of Labor Statistics, which prepares the jobs report, testified Friday before a congressional committee.

Hall would not give a forecast for hiring, but others said the latest report suggests more job losses likely lay ahead. "Businesses have become too pessimistic about the outlook for the economy, and the capacity of the Bush Administration and Federal Reserve to manage it, to be adding new employees or replacing those that leave," said University of Maryland professor Peter Morici.

Underlying weakness Despite the loss, the unemployment rate improved to 4.8% from the 4.9% reading in January. Economists had forecast the unemployment rate would rise to 5%. A survey of households is used to estimate the unemployment rate, while a survey of employers that is considered to be more accurate sets the readings on the changes in payrolls.

The unemployment rate fell because of an increase of 450,000 people whom the government no longer counts as being part of the labor force for a variety of factors, such as that they are not currently looking for work. That drop in the size of the labor force allowed for he modest decline in unemployment, even as the household survey showed 255,000 fewer Americans with jobs than in January.

Hall conceded in his testimony Friday that the labor market was weaker than suggested by the decline in the unemployment rate. He pointing to an increase of 637,000 workers over the past 12 months who have part-time jobs but would prefer to be working full time.

He said the bureau's broadest measure of the unemployment rate, one which counts as unemployed both those part-time workers who want full-time jobs as well as those not searching for a job at the moment but who are interested in finding work, now stands at 8.9%, up from 8.1% a year ago.

"We've clearly had a broad weakening in the labor market," Hall testified. "This weakening in the labor market is not a sudden thing, it has been happening for over a year."

Rep. Elijah Cummings, who was chairing the hearing of Joint Economic Committee, suggested that Congress needed to do more to address the problems of unemployment. Some proposals: extended unemployment benefits and increased food stamps, as well as greater investment in infrastructure.
"Frankly I believe our economy stands poised on an uncertain cliff, threatening to throw our nation into a crisis," said Cummings. "We do not need to recite a litany of data to know our economy is struggling."

Forecasting the Fed

The rising fear of recession has sparked a series of interest rate cuts from the Federal Reserve, along with a $170 billion economic stimulus package passed last month by Congress.

The Fed is set to meet March 18 to decide what to do with interest rates. Friday's report would seem to suggest more rate cuts are on the way, despite the improved unemployment rate.

"Even the silver lining of a falling unemployment rate has a little rust," said Rich Yamarone, director of economic research at Argus Research. He predicted that the central bank will cut rates by a half percentage point at both its March meeting and again on April 30.

But Yamarone and some other experts questioned whether additional Fed cuts would do much to improve the employment outlook.

"We're not in a crisis because the cost of borrowing is too high, it's because people are afraid of lending," said Dan Alpert, managing director of Westwood Capital, referring to the ongoing credit crunch. "At the end of the day, the Fed cuts don't really solve the problems. They've already cut allot; if jobs continue to decline in face of further interest rate cuts, it's *prima facie* evidence cuts aren't effective."

But few experts were ready to suggest the Fed would stop cutting rates at this point, given the problems in the economy and financial markets.

"The Fed has to do what it can to provide remedy and not scare the market as well," said Mike Materasso, a senior portfolio manager at Franklin Templeton.