

Unemployment Fell?

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Dowjones.com — August 7, 2009

WASHINGTON -- U.S. job losses tapered off last month while the unemployment rate surprisingly fell, suggesting that the recession is nearing an end.

Payroll cuts slowed in a variety of industries including manufacturing and many services, while the automobile sector posted a rare increase as anticipated seasonal layoffs failed to materialize last month.

Non farm payrolls declined 247,000 in July, the Labor Department said Friday, the smallest drop since last August and below the 275,000 decline economists in a Dow Jones Newswires survey had expected.

Though still a terrible loss by historical standards, the data suggest a turning point is at hand after monthly job cuts earlier in the year totaled as much as 700,000. The economy has lost 6.7 million jobs since the recession started in December 2007.

The unemployment rate, calculated using a survey of households as opposed to companies, slid 0.1 percentage point to 9.4%. The unemployment rate was under 6% less than one year ago.

When marginally attached and involuntary part-time workers are included, the rate of unemployed or underemployed workers was 16.3% last month, down slightly from June.

“The economy is at the turning point from the recession as the labor market is starting to heal,” said Chris Rupkey, economist at Bank of Tokyo-Mitsubishi.

U.S. gross domestic product contracted 1% at an annual rate during the second quarter. That was the fourth-straight quarterly decline in GDP -- the first time that’s happened since the government started keeping track in 1947.

But recent data suggest GDP will start growing again this quarter. The Institute for Supply Management manufacturing index ticked higher in July and is now consistent with GDP growth of a little over 2%.

Meanwhile, auto sales rose in July, spurred by the government’s “cash for clunkers” program. Auto production to fill depleted inventories should propel GDP this quarter.

Despite the surprising dip in the unemployment rate, a double-digit rate is still possible in the next few months. Not only does the economy have to stop contracting to add jobs, it needs to grow around 2.5% consistently just to keep up with new entrants into the labor force.

Even if the economy does expand in the 3% range this quarter, as some economists expect, few expect that type of growth to be sustained given the headwinds consumers still face from stagnant incomes and lost housing wealth.

Average hourly earnings were up \$0.03 last month at \$18.56. That was up just 2.5% from one year ago, a sign that inflation isn’t a risk for the Federal Reserve.

Fed officials meet next week, and are widely expected to hold official interest rates near zero, a view supported by Friday’s report.

Still, U.S. Treasury security yields spiked higher on the report as bond investors priced in strong odds of Fed interest-rate hikes at the start of 2010.

According to Friday’s report, employment last month in manufacturing fell 52,000, the smallest decline in one year. Automobile employment actually rose on a seasonally-adjusted basis, by 28,000. “Because layoffs in auto manufacturing already had been so

large, fewer workers than usual were laid off for seasonal shutdowns in July,” said Keith Hall, Commissioner of the Bureau of Labor Statistics.

Construction employment, meanwhile, was down 76,000.

Employment in the service sector -- the main source of U.S. jobs -- fell 119,000, a much smaller decline than the previous month. Business and professional services companies shed 38,000 jobs, and financial-sector payrolls were down 13,000. Both declines were much smaller than in June.

Retail trade cut 44,100 jobs and leisure and hospitality employment rose 9,000.

Temporary employment -- considered a leading indicator -- fell just under 10,000, another indication that the labor market is starting to turn for the better.

Continuing a trend that has persisted throughout the recession, health care was the main engine of job creation, rising over 17,000.

The government added 7,000 jobs.

The average workweek was up 0.1 hour at 33.1 hours, the first rise since last August. A separate index of aggregate weekly hours was unchanged at 99.1.

WSJ’s Kelly Evans says the unemployment rate fell for the first time in more than a year, signaling the U.S. economy is heading towards a recovery. Still, she tells colleague Phil Izzo that although the report is hopeful, there is no indication showing what would drive a recovery.

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