washingtonpost.com

Jobless Rate In August Hit A 5-Year High

By Neil Irwin
Washington Post Staff Writer
Saturday, September 6, 2008; A01

Businesses slashed jobs and the nation's unemployment rate hit a five-year high in August, the government reported yesterday, dashing hopes that the economy might stabilize in the second half of the year and showing that trouble has spread far beyond the housing and financial sectors.

As the economy weakened in the beginning of 2008, many economists held out hope that it would soon stabilize, or even improve. But with consumers spending less, the housing and stock markets dropping further, and a once-gradual decline in the job market turning into a steep slide, that doesn't appear to be happening.

The unemployment rate rose to 6.1 percent, from 5.7 percent in July, according to the data released yesterday, making for the most severe four-month rise in joblessness since 1981. More people looked for second jobs to help make ends meet, with little apparent success.

Meanwhile the nation's employers cut 84,000 net jobs, the eighth consecutive month of declines. They have shed a combined 600,000 positions from their payrolls in 2008. Of major categories of employers, only the health-care industry and government added jobs in August.

"These are really ugly numbers," said Scott Anderson, a senior economist at Wells Fargo. "There's been optimism out there that we might be nearing an endpoint, that housing is stabilizing, that the stock market may have turned a corner. But this reinforces the view that things are going to get worse before they get better."

The new data immediately became fodder on the campaign trail, and further pushed the issue of the economy into the spotlight ahead of the presidential election. Sen. Barack Obama (Ill.), the Democratic nominee, seized on the numbers to link Sen. John McCain (Ariz.), to President Bush's economic policies, saying the Republican candidate would only cut taxes for big companies. McCain called for more job training and said that Obama's tax plan would stifle growth.

The dismal numbers released yesterday go beyond the job market. Mortgage foreclosures rose 1.2 percent in the second quarter, according to the Mortgage Bankers Association, the sharpest rate of increase in the 29-year history of the group's survey. Earlier in the week, many of the nation's largest chain retailers announced disappointing August sales numbers, indicating that the back-to-school selling season was a bust. Automakers have been hurting, too. Ford said that it doesn't expect a rebound in vehicle sales this year and that it is cutting production by another 50,000 cars and trucks.

Even industries that have experienced little direct hit from the housing and financial crisis are now reeling; for example, Ciena, a Maryland-based maker of network equipment, said this week that telecommunications companies are becoming more cautious about investments, sending its profit down 59 percent. Overall, the stock market fell 3.4 percent this week, as measured by the Standard & Poor's 500-stock index. Stocks were roughly flat Friday.

Economic data from the late spring and summer had been reasonably positive, partly because government stimulus payments went out during that period, and exports boomed. Further tax rebates are not likely this year, however, and the slowing European and Asian economies are likely to lessen demand for U.S. exports.

"We're seeing what the emperor looks like disrobed," said David Rosenberg, chief economist at Merrill Lynch. "We had the largest fiscal rebate package of all time in the second quarter, and it was big enough to keep GDP positive, but we're now entering the consumer leg of this economic downturn."

With those boosts gone, people are being hammered on multiple fronts. They're losing wealth as real estate and stock market values fall. Banks and other lenders have become more reluctant to approve loans, making it more difficult for consumers to borrow money to ride out the hard times, and as was made clear by yesterday's release, the job market has gone from mediocre to lousy since the spring.

The climate is akin to what the nation experienced during the recession almost 20 years ago, when Americans were confronted by a slow-moving set of interrelated crises. It started with a downturn in commercial real estate in 1988, spread to savings and loans in 1989 and 1990, causing lending to freeze up; the brunt of job losses and rising unemployment occurred in 1991.

Now, as then, there are feedback loops whereby problems in one segment of the economy and financial system affect the others. More conservative lending by banks causes higher unemployment, and the unemployed are more likely to default on their home-equity loans, causing banks to lose money and pull back even more.

There is some good news: Prices for oil and other commodities are dropping, which should lower what people pay for gasoline and other fuels in the months ahead. However, prices for energy and food remain well above what they were a year ago and consumers will face higher heating bills as the weather turns cold.

The unemployment rate in August rose most among women, to 5.3 percent from 4.7 percent; blacks, to 10.6 percent from 9.7 percent; and Hispanics, to 8 percent from 7.4 percent. There was one possible silver lining in the weaker jobless numbers: In August, unemployment benefits were extended over a longer span, which may have made people more inclined to wait before accepting a job offer.

The weak job market is hurting even those who still have jobs, in that workers have less leverage to negotiate raises. Average weekly pay for nonmanagerial workers rose 3.3 percent in the last year, which is likely to be less than inflation.

"What is worrisome is that more full-time workers have been laid off, more people are being forced to work part time who want to work full time and more people are trying to get multiple jobs to make ends meet," said Bruce Kasman, chief economist of J.P. Morgan Chase.

The cuts by employers were spread widely. Manufacturers cut 61,000 jobs, reflecting less demand for goods. Retailers, dealing with skittish consumers and some bankruptcies, slashed 20,000 jobs. Professional and business services firms cut 53,000 jobs, heavily concentrated in cuts in temporary help. Even the nation's hotels and restaurants, which had been strong, cut back, with the leisure and hospitality sector cutting 4,000 jobs.

One surprising statistic: The construction industry, which has steadily slashed jobs this year, cut only 8,000 positions in August. It has averaged a loss of 36,000 jobs a month over the past year. But last month's modest losses may indicate that the sector, which is at the epicenter of the downturn, simply doesn't have many more jobs to lose.