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Highlights

- Nonfarm employment declined by 17,000 in January and benchmark revisions subtracted 191,000 jobs from the prior total for 2007.
- The US economy is in for a bumpy ride during the next few months and the economic data will likely to take a turn for the worse.
- The percentage of industries hiring declined to around 46%, the lowest percentage in more than four years and an indication that the weakness in the labor market is no longer "contained" in housing-related industries.

So Much for "Containment"

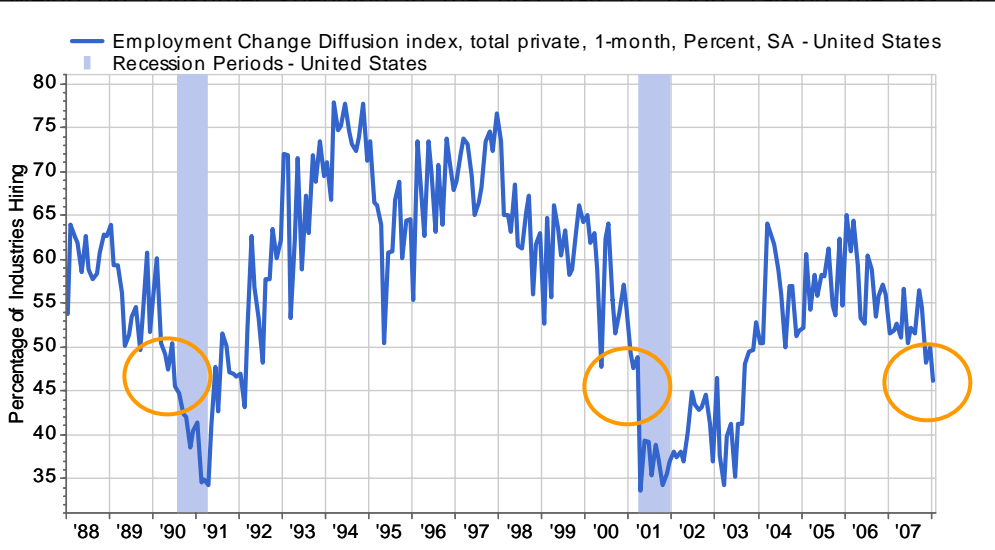
Despite expectations for a rebound in employment growth in January, nonfarm payrolls contracted by 17,000—the first outright decline since August 2003. While the market impact of this disappointing headline figure was mitigated by upward revisions to the prior month's data and a slight downtick in the unemployment rate, the underlying trends in the labor market are pointing down. Though today's ISM manufacturing figure came in above expectations, I expect the economic data to take a general turn for the worse in the months ahead with upside data surprises becoming fewer and farther between.

Perhaps what concerns me most is that the deterioration in the labor market appears to be spreading. The "percentage of industries hiring" declined to around 46%, the lowest percentage in more than four years and an indication that the weakness in the labor market is no longer "contained" in housing-related industries (see Chart below). We are now experiencing slower job growth and, in some cases, job losses in services-providing industries. For example, professional and business services lost 11,000 jobs in January, the wholesale trade sector lost 5,000 jobs, and financial services lost 2,000 jobs during the month. This comes on top of the ongoing layoffs in the construction and manufacturing industries, which posted declines of 27,000 jobs and 28,000 jobs, respectively. Temporary help services, which is often considered a leading indicator of labor market activity, declined by 9,000 during the month.

No Silver Lining Here

Some analysts have pointed to the upward revision to the December jobs data or the 0.1% decline in the unemployment rate to 4.9% as reasons for optimism, but there is no silver lining here. Although the employment numbers for December were revised up by 64,000 jobs, the Labor Department's benchmark revision to payrolls for the full year of 2007 *subtracted* 191,000 jobs from the prior estimate. The revisions are based on more complete data after a review of tax data from state unemployment insurance programs. Meanwhile the slight decline in the unemployment rate was due to rounding more than anything else. The unrounded unemployment rate came out to 4.975% in December versus 4.925% in January. Hardly a meaningful reversal.

Today's report casts the most recent data on new claims for unemployment insurance in a new light. Last week, claims jumped to 375,000—a level that is typically associated with recessions. While this number was undoubtedly skewed by the shortened holiday week, a return to the 300,000 level that prevailed in prior two weeks certainly looks less likely. The deterioration in the labor market combined with high energy prices and declining home prices will weigh on consumer spending in the first half of 2008, raising the risk of a



Source: Bureau of Labor Statistics