

The accelerated pace of deterioration in labor markets continued in December. Total employment decreased by 524,000 jobs and the unemployment rate increased to a new cycle high of 7.2%.

Job losses in October and November were revised down by a total of 154,000 jobs, bringing the total loss since August to 1.9 million jobs. The combined November and December job loss was the largest on record with the exception of a few months in 1945 when discharged soldiers flooded the labor market looking for work. The labor force was much smaller then, though, so that the percentage decline during 4-month spans has been somewhat larger on occasion during serious recessions.

Total hours worked fell 1.1% in December, bringing the change from the third quarter to the fourth quarter to an annualized pace of 7.7% – the steepest quarterly drop on record next to the two quarters at the trough of the 1973-75 recession. Given the steep drop-off in labor input, real GDP might have declined by as much as 7% to 8% if productivity was unchanged during the quarter.

Job losses again were widespread. Manufacturing shed 149,000 jobs, and construction lost 101,000 jobs. Professional and business services employment fell 113,000. And retail services payrolls fell by 67,000. In total, employment in service-producing sectors fell by 273,000 jobs, as only education and health services added to employment (+45,000). Only approximately one-quarter of the 274 industries tracked by the Bureau of Labor Statistics reported higher payrolls over one, three and six month periods. Compared with November, only 11% of the 84 manufacturing industries reported higher payrolls.

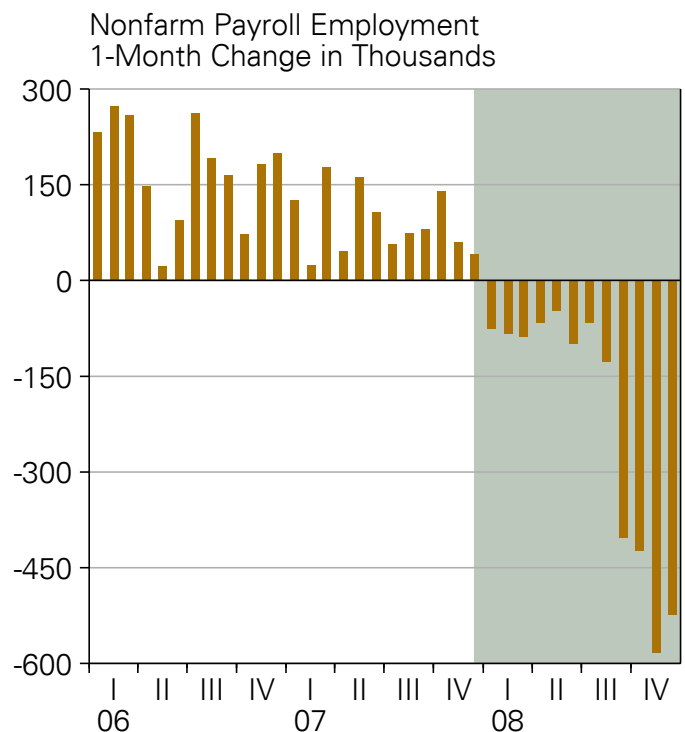
The unemployment rate increased by 0.2 points to 7.2% in December. Up by 2.8 points from the cycle low that was reached in March 2007, the rate remained at about a 15-year high. The unemployment rate would have been higher had 173,000 people not withdrawn from the labor force, presumably because of dim prospects of finding a job. The number of unemployed workers was about 3.5 million higher than a year earlier. The broadest measure of unemployment, which includes so-called discouraged workers, increased to 13.5% from 12.6% in November and 8.4% in November 2007.

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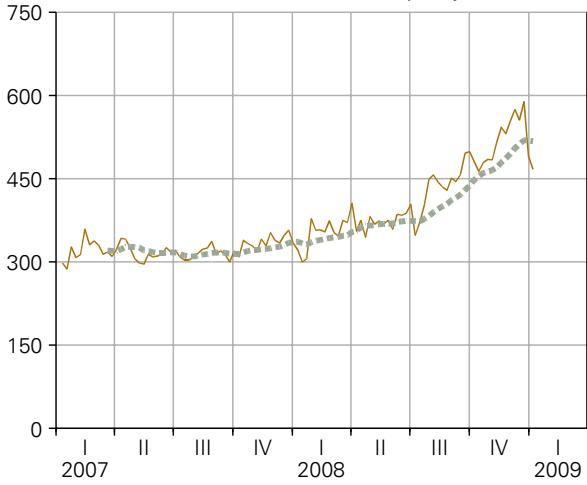
The length of the workweek for all production and nonsupervisory workers fell to a new all-time low of 33.3 hours. The manufacturing workweek fell to 40.0 hours. Manufacturing overtime fell to 3.0 hours – down sharply from 4.6 hours as recently as April 2006 and the lowest since June 1983. The continuing decreases in the length of the workweek, which is a leading indicator, indicate that labor market recovery remains further in the future.

In rare positive news, the Weekly Leading Index bounced up in the latest week, lending modest support to the second-half rebound story. Stay tuned.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



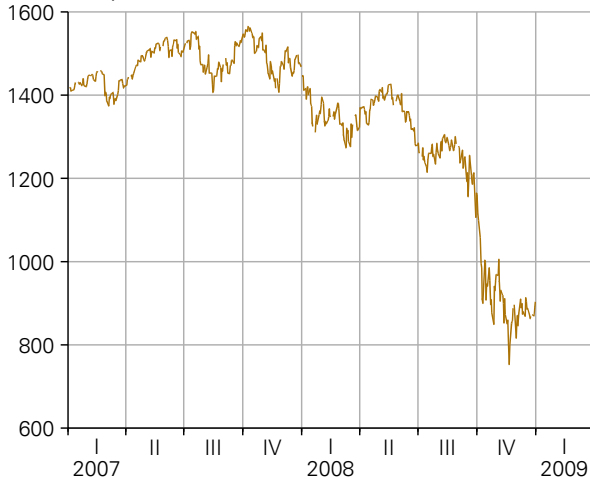
Price of Oil
West Texas Int, \$/bbl



Price of Gold
London PM Fixing, \$/oz



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA

