

There is always room for hope. But the February employment report reduced to an imaginary thread the chance that the economy will avoid recession this year.

U.S. employment decreased by 63,000 jobs in February – the largest monthly drop since March 2003 and the second monthly decline in a row. To put things in proper (and a bit less dire) perspective, employment totals approximately 138 million jobs. But it is the change that gives clues as to where we are headed.

Declines in employment were widespread across sectors in February, with manufacturing falling 52,000, construction down 39,000, and retail trade down 34,000. Total employment was also down in January by 20,000 jobs.

Economic news is never one-sided. Employment in health care and restaurants increased by 36,000 jobs and 19,900 jobs, respectively. But this does more to highlight the narrow advance in employment during the past year than to brighten the negative tone of the February employment report. Health care and restaurants account for only 17% of total employment, yet were responsible for 75% of the 860,000 increase during the past year.

Private sector employment scored a negative trifecta, falling by 101,000 jobs after dropping 14,000 in December and 26,000 in January. Private sector employment has fallen in three consecutive months only during or immediately following recessions, with the exception of two brief instances in the early 1950s.

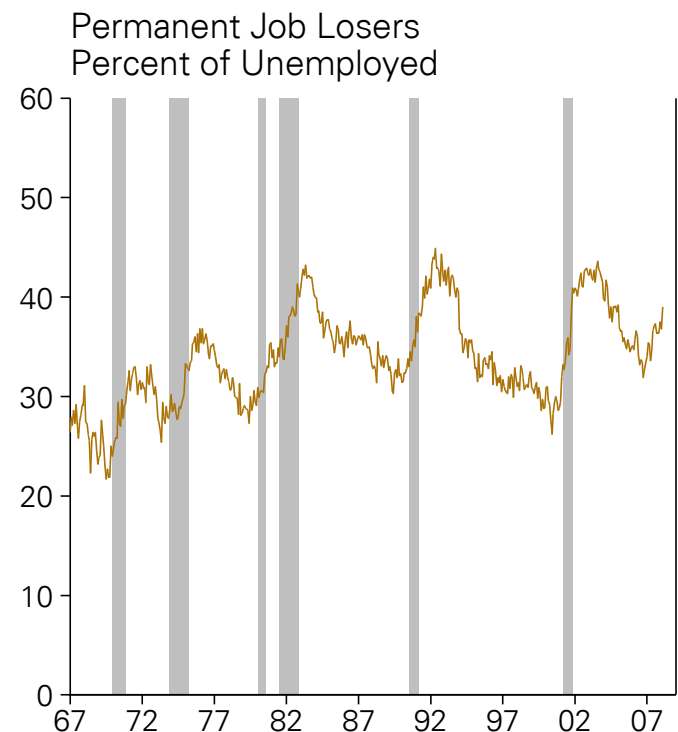
The length of the workweek was unchanged in February, but still well off the peak reached last year. Total hours worked are on track to fall by approximately 1.5% from the fourth quarter to the first quarter, making a decline in real GDP likely. Average hourly earnings increased 0.3% from January and 3.7% from February 2007, down from the peak for this cycle of 4.3% in December 2006.

The unemployment rate, which had signaled recession with its rise to 5.0% in December, edged down to 4.9% in January and 4.8% in February. Both declines, however, resulted from withdrawals from the labor force, apparently as discouraged job seekers stopped looking for work. The labor force decreased by 42,000 people in January

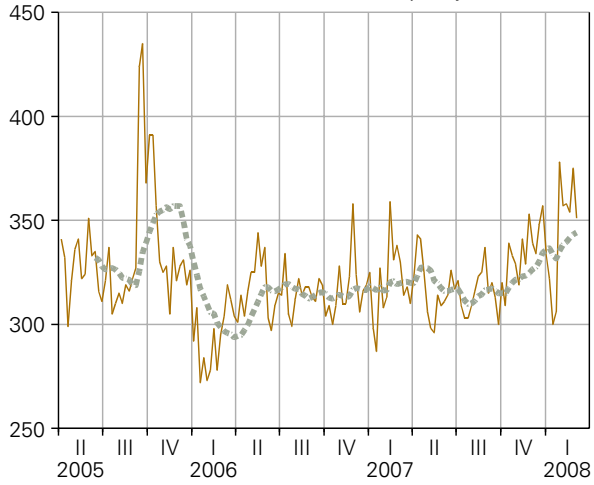
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and 450,000 people in February. But here's the really bad news: The number of people who are unemployed because they lost their last job for reasons other than temporary layoff has increased by a critical amount as a percent of total unemployment. The share of permanent job losers increased decisively as the economy headed into each of the last seven recessions, as shown in the chart below. The data are available only back to 1967.

Of course, things could be different this time. But the list of developments that would have to be different this time for the economy to not be headed for – or already in – recession is too long to be realistic.



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

