Weekly Econotes

APRIL 4, 2008

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The deterioration in labor markets accelerated in March, indicating that the first business cycle recession since 2001 is almost certainly underway. The manufacturing sector is shrinking, but not at recessionary speed yet, according to purchasing managers. Construction activity in the nonresidential sector continued to slide in February.

U.S. employment decreased by 80,000 jobs in March, following declines of 76,000 jobs each in the two previous months. The January and February tallies were revised downward by a total of 67,000 jobs.

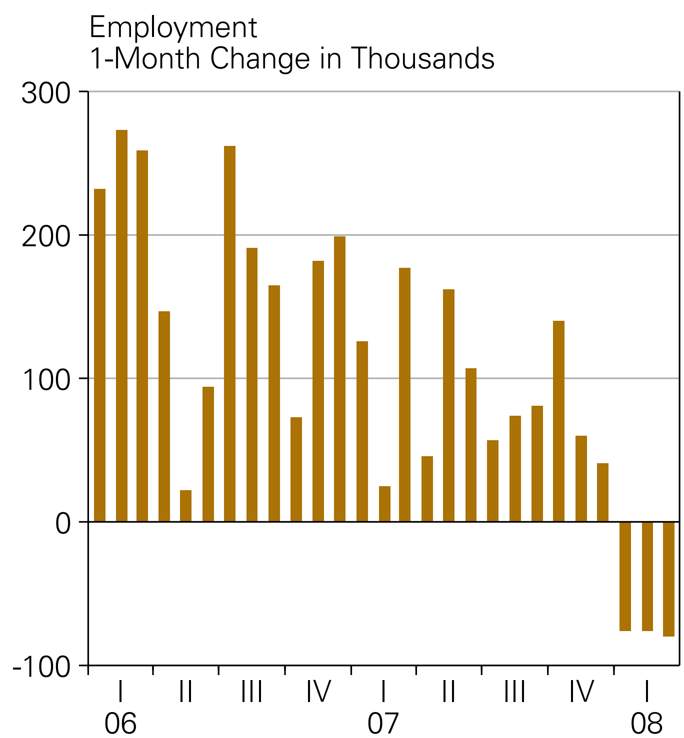
The unemployment rate increased by 0.3 percentage points to 5.1%. The ranks of the unemployed increased by 434,000 people, even as 225,000 former job seekers stopped looking for work. The unemployment rate has increased by 0.3 percentage points or more from one month to the next on only three brief occasions during the post-war period that did not correspond with recessions. The rate has increased by 0.7 percentage points from its low during the previous twelve months, which has only happened during periods associated with recessions.

Job losses were widespread, occurring in virtually all industries. Private sector payrolls decreased by 98,000 jobs for the fourth consecutive monthly decline – a sequence that has only occurred in periods of recession. Even the usually strong professional and business services sector shed 35,000 jobs due primarily to a drop in employment at temporary help services. Outside of government, which added 18,000 jobs, the only major industries reporting net hiring on the month were education and health services, in the health care area, and leisure and hospitality, in food services.

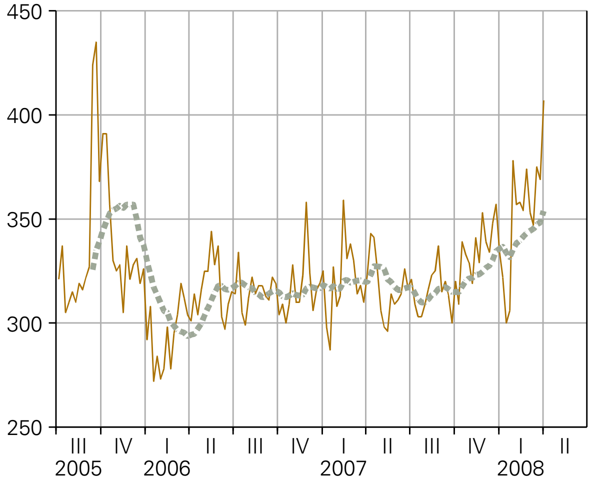
The length of the workweek increased a bit in March, but not by enough to prevent a 1.1% annualized rate of decline in total hours worked in the first quarter. Average hourly earnings increased 0.3% from February and 3.6% from March 2007, down from the peak for this cycle of 4.3% in December 2006.

Despite the serious downturn in labor markets, the March report from purchasing managers is consistent with a contraction in manufacturing activity, but slow growth in real GDP. The PMI composite index was little changed in March, just below the neutral level of 50. The new orders index, however, fell to a new low for the cycle, and the production index fell back below neutral. Import orders also fell sharply to a long-time low, presumably reflecting weaker domestic demand.

Finally, construction activity declined again in February for the fifth straight month. Private nonresidential construction fell for the third straight month, in what appears to be the beginning of a trend that was foreshadowed for quite some time by the decay in residential sector construction.



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted

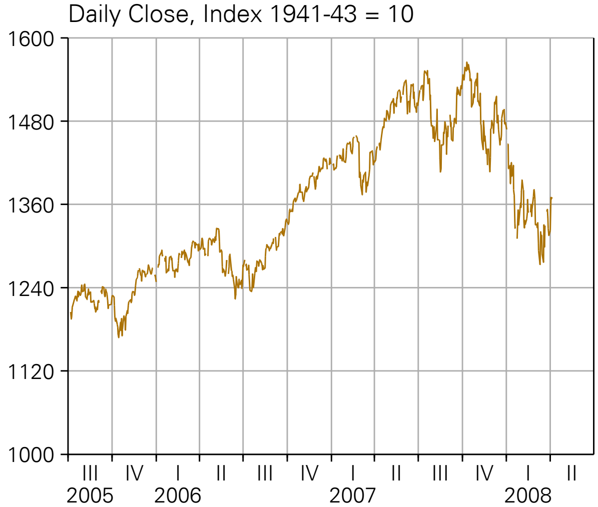


U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100

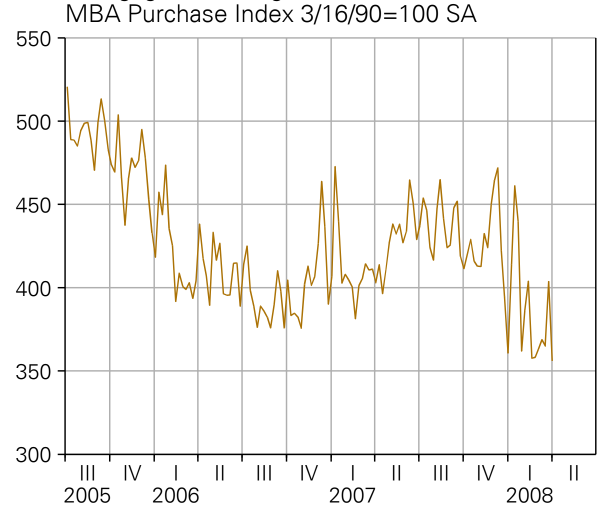
Price of Oil
West Texas Int, $/bbl

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



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