

Slightly more-upbeat reports from purchasing managers both in and out of manufacturing could not overcome the bleakest employment report yet since the economy started to slow.

Total employment decreased in May for the fifth straight month by 49,000 jobs. Private payrolls decreased by 66,000 in May – the sixth straight decline – and have decreased by a total of 411,000 jobs since last November. Construction employment decreased by 34,000 jobs, as employment at residential specialty trade contractors fell by 18,800 jobs. Manufacturing employment decreased by 26,000 jobs, with losses occurring across most major industries. In the private services category, employment gains in education and health services (+54,000) and leisure and hospitality (+12,000) were more than offset by declines in other sectors.

Employment in temporary help services decreased for the seventh consecutive month and the sixteenth out of the last seventeen months and is down 7.2% from its peak in December 2006. Temporary help employment has led other measures of economic activity in the past, because of the ease with which temporary staff can be added or reduced. At the start of the last recession in March 2001, temporary help employment had decreased by 7.2% from its previous peak.

The unemployment rate jumped by one half percentage point in May to 5.5% – the largest one-month increase since May 1980 to the highest level since July 2004. (The rise matched the increase in February 1986.) The unemployment rate is 1.0 percentage point higher than the low point during the previous twelve months, a development that has occurred early in every recession since World War II and only at those times.

The increase in the unemployment rate resulted in part from a large increase in the labor force that, in combination with the drop in employment, raised the number of unemployed by 861,000 people – the largest one-month increase since January 1975. The economy was in recession during November 1973 to March 1975.

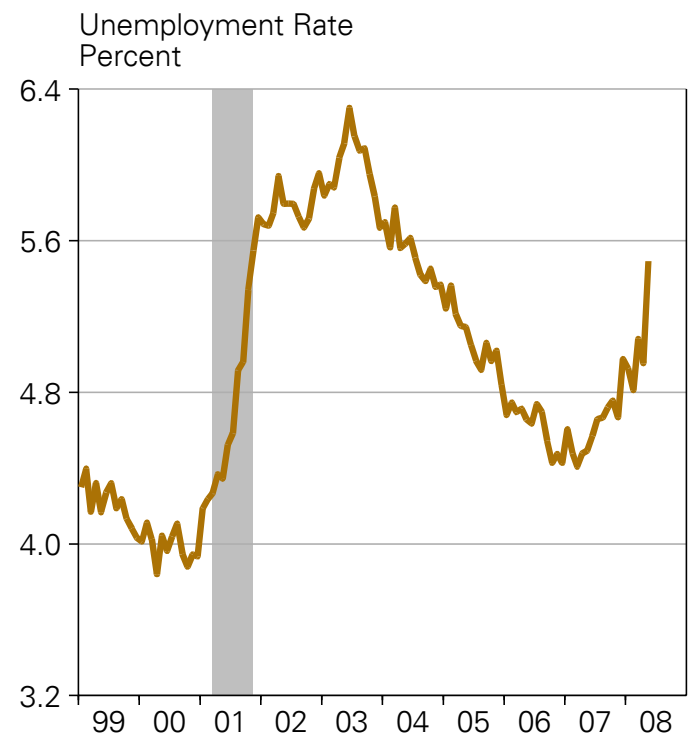
The length of the workweek for all production and non-supervisory workers was unchanged at 33.7 hours. The

A very bleak employment report for May more than offset modestly positive news from purchasing managers announced earlier in the week. The economy faces more deterioration before it improves.

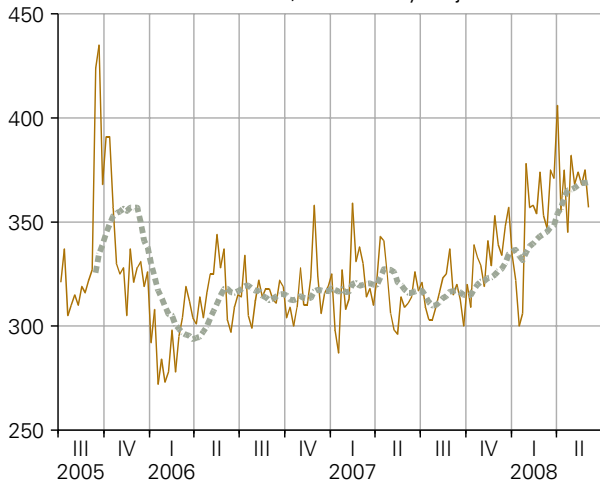
manufacturing workweek was also unchanged at 41.0 hours, but overtime decreased from 4.0 hours to 3.8 hours. By virtue of the decrease in employment, the index of aggregate weekly hours edged down in May and is on pace for an annualized rate of decrease of 1.0% in the second quarter.

Despite somewhat better reports from purchasing managers, the latest employment report confirms that the economy is in the grips of a cyclical downturn.

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

