

Deterioro Grande Isn't A River In Texas and New Mexico

<http://en.wikipedia.org/wiki/Recession>

In macroeconomics, a recession is a decline in any country's gross domestic product (GDP), or negative real economic growth, for two or more successive quarters of a year. However, in the United States the official designation of recessions is done by the business-cycle dating committee of the National Bureau of Economic Research (Feldstein, 2007). The American National Bureau of Economic Research defines a recession more ambiguously as "a significant decline in economic activity spread across the economy, lasting more than a few months."

http://www.nytimes.com/2008/01/05/business/05econ.html?_r=1&oref=slogin&pagewanted=print

January 5, 2008 Unemployment Sounds Warning About Economy By PETER S. GOODMAN and MICHAEL M. GRYNBAUM

The unemployment rate surged to 5 percent in December as the economy added a meager 18,000 jobs, the smallest monthly increase in four years, the Labor Department reported on Friday.

Economists viewed the report as the most powerful indication to date that the United States could well be falling into a recessionary downturn. Evidence of widening unemployment heightened anticipation that the Federal Reserve would further cut interest rates this month, perhaps by an unusually large half a percentage point, in a bid to prevent the economy from sliding into the muck.

"This is unambiguously negative," said Mark Zandi, chief economist at Moody's Economy.com. "The economy is on the edge of recession, if we're not already engulfed in one."

A recession is typically defined as an extended period of at least several months during which economic activity shrinks and unemployment rises.

The swift deterioration in the job market resonated as a warning sign that troubles once confined to real estate and construction are spilling into the broader economy, threatening the ability of American consumers to keep spending with customary abandon.

On Wall Street, the report led to a big sell-off that sent the Dow Jones industrial average plunging nearly 2 percent.

As the presidential race heated up, Democrats seized upon the bleak job numbers to indict Republican-led economic policies. "This morning's jobs report confirms what most Americans already knew," Nancy Pelosi, the House speaker, said in a statement. "President Bush's economic policies have failed our country's middle class."

President Bush cautioned that "we can't take economic growth for granted" and said he would work with Congress to be "more diligent" on protecting the economy. Speaking to reporters at the White House after a meeting with his economic advisers, Mr. Bush warned that "the worst thing the Congress could do is raise taxes on the American people."

The lone consolation for investors, workers and the public at large was that the bad news seemed severe enough to prod the Fed to push its benchmark rate below its current 4.25 percent when policy makers meet at the end of the month. Lower interest rates decrease borrowing costs and encourage banks to lend more freely, spurring spending, hiring and investment.

The Fed has already eased rates three times since September in a bid to inject confidence into jittery markets. But analysts cautioned that central bankers may now feel constrained against

further easing: inflation is growing, particularly as oil hovers near \$100 a barrel. Lower interest rates, over time, can generate the seeds of inflation, and could make an already weak dollar worth less against foreign currencies.

“The Fed is trying to juggle a two-sided sword,” said Ryan Larson, senior equity trader at Voyager Asset Management. “They’re trying to fight inflation moving higher and they’re trying to fight a slowdown in growth.”

In an effort to encourage lending, the Fed has been pumping cash through the banking system by auctioning off loans at discounted rates. On Friday, it said it would expand a pair of auctions scheduled for this month, offering \$30 billion.

Some economists said the markets and other analysts were making too much of a lone jobs report that could yet be revised.

“The stock and bond markets are going into panic mode,” said Michael Darda, chief economist at MKM Partners, a research and trading firm in Greenwich, Conn. “We’re going to have a slowdown, but I don’t think we’re going to have a recession.”

While filings for jobless benefits have been rising in recent weeks, the pace has not been swift enough to justify such a sharp jump in the unemployment rate, Mr. Darda added.

For months, the economy had managed to grow vigorously despite worrying developments, from the unraveling of the housing industry to turmoil in the credit markets. Through it all, economists marveled at the resilience of the labor market, suggesting that as long as the economy kept creating jobs by the tens of thousands each month, Americans would keep spending and growth would carry on.

But the jobs report for December suggested that the negatives dogging the economy finally appear to be dragging it down.

“There’s no mystery as to why the unemployment rate went up,” said Robert A. Barbera, chief economist at the research firm ITG. “The mystery is why it took so long.”

December’s addition of 18,000 jobs to nonfarm payrolls was an abrupt drop from the 115,000 created in November — a figure revised on Friday from an initial estimate of 94,000. It put the annual rate of job growth at its lowest since 2004.

Some areas of the economy continued to expand, according to the report. Government jobs grew, and health care added 28,000 jobs. Food services added 27,000.

But that growth was largely reversed by pain elsewhere. Retailing lost 24,000 jobs in December. Financial services lost 7,000. Construction shed another 49,000 jobs. Even commercial construction, which some have suggested could compensate for woes among home builders, lost 17,000 jobs. Over all, private sector jobs slid by 13,000.

Despite a weak dollar, which has helped compensate for disappointment at home by lifting American sales abroad, the nation shed 31,000 manufacturing jobs in December.

For the third consecutive month, wages grew slower than the pace of inflation, cutting into the real income of many workers. Among rank-and-file workers, who make up more than four-fifths of the labor force, average hourly earnings rose 3.7 percent last year, below the 4.3 percent rise in 2006.

Job growth has been slowing steadily for two years. In 2005, the economy generated 212,000 new jobs a month, according to the Labor Department. Last year, the pace dropped to 122,000.

The spike in the unemployment rate, which was 4.7 percent in November, suggested that the deterioration of the job market is now accelerating.

Last year, companies fretted about business prospects amid falling housing prices and tightening credit. Many stopped hiring, but large-scale layoffs were rare. But now, some appear to have concluded that they can no longer tough it out.

“December’s bleak jobs report represents the siren call that this business cycle is just about over,” declared Bernard Baumohl, managing director at the Economic Outlook Group, in a note to clients. **“We’re about to tilt over to the other side of the economic curve and begin the downsizing.”**

In Penacook, N.H., the tilt came during the Christmas season: Riverside Millwork, a supplier of windows, doors and stair parts, laid off 43 people. That added to a wave of layoffs that has winnowed the staff from 225 to 40 since October 2005, when home building began its decline.

“We’ve cut just about everything that we can possibly cut,” said Larry Byer, the company’s human resource manager. “When you don’t have assets to sell or to keep you going, the bodies have to go.”

In calculating the rate of job growth, the Labor Department relies upon a sampling of payroll data and an extrapolation of how many jobs have been created and destroyed. An accompanying survey of households, used to calculate the unemployment rate, presented an even bleaker picture, showing that the number of Americans saying they were working plunged by 436,000 in December — the worst number in five years.

The trend was pronounced for teenagers, blacks and Hispanics, with unemployment among those groups jumping 0.6 percentage point, triple the increase for whites.

The household survey is notoriously volatile and treated with skepticism. But unlike the payroll data, it is not subject to revision, other than for seasonal factors, making it a better indicator when the economy is on the cusp of change, Mr. Barbera said.

Between December 2005 and December 2006, the household survey showed jobs increasing by 2.2 percent. Over the last year, jobs grew less than 0.2 percent.

“Every time we’ve gotten down to this level since 1956, there’s been a recession,” Mr. Barbera said.

The risk is that the weakening job market will swell from a symptom of malaise to a cause. As fewer jobs are created, spending power could dry up. Faced with declining business, employers could further trim payrolls. As unemployment grows, more homeowners could fall behind on mortgages, leading to more losses at banks, and more layoffs.

“The risk of a vicious cycle setting in now is very high,” Mr. Zandi said. “The job market’s operating at stall speed. Either it picks up soon or it quickly unravels.”

Edmund L. Andrews contributed reporting.