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[Stormy Mid-Year Employment Outlook Leaves Investors in the Dark About the Economy's Second-Half Prospects](#)

[Editor's Note: This analysis of the U.S. employment outlook is the latest installment of a new *Money Morning* series that is telling investors what to expect for the last half of 2009. To see earlier stories, [please click here](#) or on the series logo below.]

By Don Miller
Associate Editor
Money Morning

The outlook for the U.S. job market over the last half of this year sounds more like weather forecast than an economic projection: Investors can expect rising unemployment with a cloudy overcast that will greatly reduce economic visibility for the rest of 2009.

The uncertain outlook will spawn political thunderstorms in Washington as elected officials engage in stormy debates about what should be done to keep the flash floods from swamping the nascent economic recovery.

For a more substantive illustration of this second-half outlook, consider the recently released Duke University/*CFO Magazine* "Global Business Outlook Survey," which surveyed more than 1,300 corporate chief financial officers from all around the world on their expectations for the economy and employment.

In the survey, whose [results were released last month](#), CFOs concluded that U.S. employment will continue to



decline in the subsequent 12 months – resulting in an unemployment rate in the 11% to 12% range, a forecast that's at the high end of mainstream projections.

Even the most-aggressive government intervention will reduce unemployment by 2 million jobs, meaning the U.S. economy could face the loss of another 4 million jobs by the middle of next year, said Campbell Harvey, founding director of the survey and international business professor at Duke's [Fuqua School of Business](#).

“Our survey carries an important message: Don't put too much weight on the 'soft' data like consumer confidence. Recovery requires sustained confidence, and such confidence is forged by stronger economic fundamentals,” Harvey said. And “the economic fundamentals — employment, capital spending, the cost of credit — are still fundamentally troubling.”

Updated unemployment statistics are front and center on the radar screens of nearly every credible Wall Street investment analyst, economist and politician in Washington.

But there's one very important reason the numbers are so heavily scrutinized these days — nothing less than the recovery of the entire U.S. economy hangs in the balance.

The fact is, all the high profile economic pundits know that either the unemployment situation in the U.S. improves in the second half of 2009 or the very life of a nascent economic recovery could be snuffed out.

It's simple – if people don't have jobs, they can't spend money.

Since consumer spending accounts for as much as 70% of U.S. economic activity, unemployment reduces consumer spending, which then ripples through every sector of the economy – touching such key business areas as housing and manufacturing, and influencing the prices of such everyday items as gasoline and food.

But while the latest unemployment numbers were truly horrific, most economists say it's probably going to get worse before it gets better.

And the latest news also brings into focus the possibility the U.S. may be facing a [jobless recovery](#) – something that could put the economy into a deep freeze.

That leaves the Obama administration in the unenviable position of preaching for patience from critics blasting the \$787 billion stimulus program as too little too late.

Here's a look at what might lie ahead for the employment picture and how it's impacting, certain economic sectors and, by extension, people on the street.

Latest Unemployment Numbers Are Grim

Unemployment hit a 26-year high of 9.5% in June, the Labor Department reported, and nonfarm payrolls shrank by 467,000, compared to 345,000 in May, much higher than anticipated.

While the initial claims for unemployment benefits fell to levels not seen since the beginning of the year, continuous claims (those folks who remain on the unemployment rolls for over a week) jumped by 159,000 to

reach 6.88 million – the highest total ever recorded in a system that dates all the way back to 1967.

And most economists predict unemployment will top the 10% level by the end of the year.

Not to scare you, but the situation is actually worse than it seems. As previously reported in *Money Morning*, over the years the government has changed the way it counts the unemployed.

The most commonly quoted number in the media is the “official” unemployment rate, which now stands at 9.5%.

But to get [the real picture](#), you have to add in what the government refers to as “[discouraged](#)” workers and “[marginally attached](#)” workers – those who have stopped looking for work, or who haven’t looked for work recently. Add those in and the U.S. unemployment rate starts to approach 17%.

And it gets worse.

[If you include the people that the government doesn’t even count – such as unemployed farm workers, the idle self-employed, and workers in private homes – the unemployment rate reaches an jaw-dropping 20.6%.](#)

according to figures compiled by John Williams of *Shadow Government Statistics*.

If that’s true, an astonishing 25.5 million people are currently out of work in the country.

But job losses are also spread across different sectors of the American work force. The overall unemployment rate for men is currently 2.3% higher than it is for women, the largest gap since records started being kept in 1948.

It’s not hard to see why. The construction and manufacturing industries – job sectors that are primarily male-dominated – account for about half of the 6 million jobs lost since the recession started in December 2007.

["Every industry is contracting, but these industries have taken the brunt,"](#) Sophia Koropecyj, an economist with Moody’s [Economy.com](#) (NYSE: [MCO](#)) told *MarketWatch.com*. “It’s not surprising that men’s unemployment is higher than women’s, since men account for 87% of workers in manufacturing and 71% in construction.”

Furthermore, when you break down and really study the “official” unemployment numbers according to age, sex, and ethnic groups, some dramatic disparities become quite clear. Check out the unemployment rate differences in these different groupings of U.S. workers.

- Black men 20 and older: 16.4%.
- Black women 20 and older: 11.3%.
- White men 20 and older: 9.2%.
- White women 20 and older: 6.8%.
- Black males age 16 to 19: 50%.
- Black females age 16 to 19: 40.6%.
- White males age 16 to 19: 26.5%.

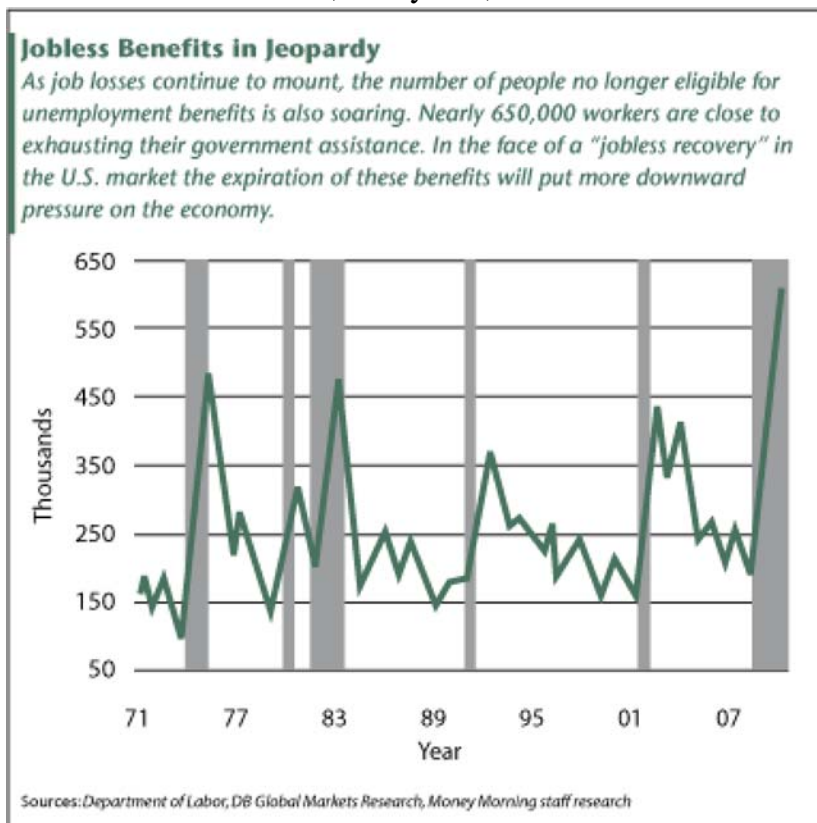
- White females age 16 to 19: 23.5%.

It's easy to explain why younger workers suffer more than older ones. Teens suffer because they're less educated and are competing for jobs with older, more experienced people.

But "educational differences do not completely explain the black-white unemployment rate gap," Ron Laschever, assistant professor of economics at the [University of Illinois at Urbana-Champaign](#) told *MarketWatch*. "Some studies show that part of the gap is correlated with residential segregation: Blacks, on average, are more likely to live in neighborhoods where there are fewer jobs available."

The rise in the continuing unemployment rate also raises another issue: expiring unemployment benefits.

As the chart below shows, nearly 650,000 workers are close to exhausting their government assistance:



That raises warning bells among some economists.

"We are concerned about what will happen when a significant share of out-of-work individuals' benefits completely expire, [because this could lead consumer spending to re-weaken, hence jeopardizing a fragile recovery](#)." Deutsche Bank's chief U.S. economist Joseph LaVorgna, told *MSN.com*.

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Last, but not least, there also are escalating levels of "[underemployment](#)," a situation in which a skilled worker – a nuclear physicist, for instance – can't find work in his or her field, and ends up taking a low-paying, hourly job, as a grocery-bagger, cab-driver or counterworker in a fast-food restaurant.



Given all that we've seen here, it's clear that no matter how you slice – or how you analyze – the nation's jobless numbers, you're going to come to the same inescapable conclusion: The outlook is for cloudy skies with the potential for major storms ahead.

Jobless Recovery Seems a Certainty

While the official unemployment rate in the United States is expected to top off around 10% in the second half of the year, it may well stagnate and create a "[jobless recovery](#)," a

topic [well documented](#) by *Money Morning*.

While most economists are banking on layoffs to slow in the second half, it won't mean anything if hiring doesn't pick up. And the latest statistics indicate that isn't happening.

[The hiring rate stood at just 3% in May](#), according to data released recently by the U.S. Labor Department. That's the lowest rate of new-hires the government has ever reported in the nine years it's been tracking the data.

For every person that finds a job, more than one person leaves or loses theirs. The number of new hires in May stood at 3.98 million. At the same time, the number of "separations" – which employees who were laid off, fired, quit, or saw their contracts expire without renewal – was 4.36 million.

Meanwhile, job openings fell 36% from the prior year to 2.6 million, not nearly enough to make a serious dent in the 14.7 million people officially out of work in the country.

And things don't look good for the main engines of U.S. economic growth – manufacturing and construction – where workers have been hardest hit.

In 2006, there were 14.2 million manufacturing workers in the U.S. Now there are about 12.2 million.

Koropecy doesn't expect more than 12.5 million manufacturing jobs for the foreseeable future.

"We started at 14.2 million, and by 2013 we will have 12.5 million. There are a lot of jobs there that aren't being replaced," she told *Market Watch*.

As for housing, "at the peak, 2.2 million units were being constructed," she said. "By the end of 2010, it'll be about 1 million units constructed on an annualized basis – that's still less than half of where it was in 2005."

There are a few bright spots on the hiring front. But the only two private-sector industries to show a net increase in jobs from the start of the recession are healthcare and education.

Healthcare logged a net gain of about 542,000 jobs from December 2007 through May, and private education showed a net gain of about 102,000 jobs in that period.

But even U.S. Federal Reserve Chairman Ben S. Bernanke recently warned that unemployment could remain high for some time, a key Republican lawmaker who met with the Fed chief told *CNBC*.

"It was a rather sobering meeting," U.S. Sen. Richard Shelby, R-Ala., said in a live interview. "I said... [‘Could this be a jobless recovery?’...and he said it could be.](#)"

Obama’s Stimulus Program to the Rescue?

The Obama administration in recent days has been preaching patience to critics who have [been calling for a second](#) stimulus to create jobs and get the economy moving. We need to wait for the stimulus to take effect by helping create 3.5 million new jobs, President Obama says.

But don’t hold your breath, Louis Woodhill, a member of the leadership council of the conservative [Club For Growth](#), wrote in a recent column.

“Stimulus is based upon the superstition that government borrowing and spending creates demand. In reality, it does no such thing,” Woodhill wrote. “Stimulus is like trying to raise the level of the Hudson River by dipping out a bucket of water, walking five feet downstream, and pouring it back in.”

The unemployment rate is based on private business investment (PBI), which declined 37.3% during the first quarter of this year, Woodhill wrote.

And that’s a problem.

“It takes a 5% year-over-year increase in PBI to produce a 1% increase in the number of jobs,” wrote Woodhill. “A 5% decrease in PBI will yield a 1% reduction in total employment.”

Woodhill is expecting the unemployment rate to reach 14%.

The Bottom Line: Job Market Recovery Will Be Slow

Despite all the challenges that we’ve detailed here, there are still many experts who believe the U.S. job market will recover – a shift that would be virtually certain to push the American economy back into a slow-growth mode.

Once consumers gain confidence and start spending again, demand for durable goods will improve. That signals a need for manufacturing workers, Heidi Shierholz, an economist at the [Economic Policy Institute](#), told *MarketWatch*

"The manufacturing jobs that have been lost in this recession will largely come back," she said. "We’ve seen manufacturing decline as a share of the work force for decades – that won’t stop."

But the jobs lost to this recession should return, she said.

"People are going to start buying durable goods again, including cars and appliances," she said, noting that some foreign-owned car companies have U.S.-based factories.

Yet the growing number of unemployed workers – combined with tepid hiring – means the outlook for job growth remains murky for now.

President Obama and his colleagues better hope things start to improve soon.

There's [an old market adage](#) that says you can tell the country's in an economic recession when your neighbor's out of work – and you can tell the country's in a economic depression when *you're* out of work.

Unless the economy starts revving up here in the third quarter, more and more people could find that not only are they without a job, but that they also have no unemployment benefits. For these people, 2009 will feel an awful lot like the Great Depression.

That could spell even deeper and more dramatic consumer spending cuts. If that doesn't blunt the much-anticipated U.S. economic rebound outright, it will certainly make the recovery much less of a certainty.

[Editor's Note: A [new offer](#) from *Money Morning* seeks to eradicate some of the economic uncertainty that's emanating from the ongoing climb in U.S. unemployment, and actually represents a two-part bargain for investors. The reason: It offers the new best-selling investment book penned by acclaimed financial commentator Peter D. Schiff *and* a subscription to *The Money Map Report* newsletter, a sister publication to *Money Morning*. Schiff's new book - "[The Little Book of Bull Moves in Bear Markets](#)" - shows investors how to profit no matter which way the market moves, while our monthly newsletter, [The Money Map Report](#), provides ongoing analysis of the global financial markets and some of the best profit plays you'll find anywhere. To find out how to get both, [check out our newest offer.](#)]

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July 27th, 2009

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Personal Letter from

PETER SCHIFF

President, Euro Pacific Capital



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Date	Release
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August 4	Personal Income/Spending (06/09)
August 5	Factory Orders (06/09)
	ISM – Services (07/09)
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