Monthly job cuts hit worst rate in 34 years

By Joanna Chung

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The US economy's loss of more than half a million jobs in the past month, revealed in official figures yesterday, offered the starkest evidence yet of the financial crisis fallout.

The loss of 533,000 jobs in November was the fastest monthly decline in 34 years and far worse than most predictions of 300,000 to 350,000 losses.

The fear now is that the pace of job losses is only gathering further speed as employers move to slash costs to cope with falling demand. A number of companies announced fresh job cuts this week.

The situation is putting pressure on policymakers, not least because job losses directly hit consumer spending, an important driver of growth.

The Federal Reserve is widely expected in a little over a week to cut its main interest rate even further, from the current 1 per cent. President-elect Barack Obama said yesterday that a recovery plan was urgently needed to save or create at least 2.5m more jobs over two years.

Some economists say a large fiscal stimulus plan could be helpful. However, "it is not clear how much of this will get into the hands of consumers in 2009", said Campbell Harvey, a professor at Duke University's Fuqua School of Business.

"It really does look as if someone flicked the off-switch on the US economy during September," said Richard Yamarone, chief economist at Argus Research, adding that the "really bad news is that there's no reason to expect this trend to reverse".

Coupled with sharp upward revisions to September and October figures, the US has lost about 1.2m jobs since the start of September, the largest three-month loss in any period since the months immediately following the end of the second world war, according to Dean Baker, the co-director of the Center for Economic and Policy Research.

Some analysts said the relatively modest increase in the jobless rate - from 6.5 per cent to 6.7 per cent in November, albeit a 15-year high - was also misleading. "The jobless rate was actually restrained by a large decline in the labour force, as we had suspected," said David Greenlaw, an economist at Morgan Stanley.

Some economists predict that the jobless rate could rise to as high as 8.5 per cent by the end of next year. There are other worrying trends. The weakness in the labour market continues to be broad based, with job losses spread over most sectors, including manufacturing and services.

Conditions for those still employed appear to be worsening. Average work weeks shortened noticeably in November and 621,000 more Americans began working part-time because they were unable to find full-time jobs.

"The one anomaly in this report is the 0.4 per cent increase reported for average hourly earnings," said Jan Hatzius, at Goldman Sachs. But "there is no way that it should be read as a meaningful indication of labour market trends given the horrendous nature of the entire report", he said.

Gabriel Stein, of Lombard Street Research, said that labour market data were a generally lagging indicator but there was "a curious dichotomy" in the developments. "What makes these numbers strange is that we have not yet seen anything like the economic weakness that they would imply."

"In earlier recessions, job losses and an unemployment rate change of this magnitude was already associated with significant falls in activity. Yet so far US output growth has weakened, but on a four-quarter basis it remains positive." There were a number of pot-en-tial explanations, among them that a fall in employment and rise in unemployment had a limited impact. But it may also be that "we have still only seen the beginning of labour market carnage and that unemployment is going to get much worse".

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