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The worst recession since World War II? Shaping up that way

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WASHINGTON — The government's report Friday of an 8.1 percent unemployment rate equals the jobless number that the Obama administration has projected for the entire year. Few economists think that optimistic projection will hold, and many think that more big job losses are likely, with grim implications for the housing and banking crises.

Employers shed another 651,000 jobs in February, the Labor Department said Friday, pushing the nation's unemployment rate up from 7.6 percent to 8.1 percent. That's the highest jobless rate in a quarter-century and a clear sign that the deep U.S. economic recession isn't abating.

The monthly Employment Situation Summary also revised the jobs numbers for December and January downward, for a combined 161,000 more lost jobs than had been reported earlier. This pointed to a steeper economic contraction early this year than all but the gloomiest forecasters had projected.

Underscoring the rapid pace of decline, the department's Bureau of Labor Statistics reported that payroll employment has fallen by 2.6 million people in the past four months alone. Over the past 12 months, the number of unemployed has increased by about 5 million. Some 12.5 million Americans are now jobless.

"This is what falling off a cliff looks like," said Larry Mishel, the president of the liberal Economic Policy Institute. Mishel looked at trends in the first 14 months of past recessions and concluded that "we've seen the sharpest decline in employment and the sharpest decline in private sector hours worked — a 5.5 percent decline — than in any recession in 50 years."

Tables attached to the jobs report included some lesser-known indicators that point to even greater trouble ahead, especially in the sagging housing sector.

One is a near-doubling of the unemployment rate of college-educated workers over the past 12 months to 4.1 percent from 2.1 percent. For workers with some college or associate degrees, the jobless rate has grown from 3.8 percent to 7 percent in the same period.

There now are more than 4.5 million unemployed in these two categories, more than a third of all jobless workers.

That means that consumer spending, the engine that powers most of the U.S. economy, is likely to sputter even more. Workers with the highest incomes tend to have the best credit scores and access to the best mortgage rates, and now the top customers for credit card companies and mortgage lenders are joining the ranks of those who're falling behind on mortgage payments and losing their homes.

The increasing number of white-collar workers who are losing their jobs threatens to produce a new wave of foreclosures on top of the steep numbers of foreclosures on sub-prime mortgages, which were given to the weakest borrowers. It suggests that a housing recovery will depend on a jobs recovery.

"A 4 percent rate might look pretty low, but it's doubled in slightly more" than a year, said Jay Brinkmann, the chief economist for the Mortgage Bankers Association. "It is very difficult to deal with the mortgage issue separately, without realizing so much of it now is going to be driven by job losses," Brinkmann said in a conference call Thursday before the numbers came out.

President Barack Obama took note of Friday's jobs numbers during a graduation ceremony at a police academy in Columbus, Ohio. He said his multifaceted economic rescue plan aimed to reverse the steep job losses, but he pleaded for Americans to give his $787 billion economic stimulus plan and his housing plan time to work.

The revisions to the December and January job losses, along with the fact that most economists now expect a much more severe economic contraction in the first three months of this year, call into question some of the assumptions in the Obama administration's financial rescue plans.

The nation's 19 largest banks are undergoing so-called "stress tests" by regulators to gauge whether they have enough capital to withstand a "severe" downturn, in which the unemployment rate hits 10.3 percent.

When it was unveiled last month, that seemed like an improbable number. Now, however, "the severe downturn scenario is looking more and more like the good (case) outcome of our economy," said Campbell Harvey, an economist at Duke University in Durham, N.C.

"Unemployment takes a while to come around, so you can be past the trough of the recession and unemployment continues to increase. Part of the problem is what we've got now has got to get worse," Harvey said. "Even if we had a recovery in summer of 2009, the numbers will continue to get worse throughout 2009."

How much worse?

Harvey is a research associate with the National Bureau of Economic Research, the organization that calls recessions. He and colleagues at Duke recently did a survey with CFO magazine and found that chief financial officers of corporations expect to slash 5.7 percent of their work forces this year. That's about 6.3 million additional private-sector jobs lost, and implies an unemployment rate of 12.2 percent — and those numbers reflect only planned layoffs, not closures as companies are shuttered.

Few mainstream economists are projecting an unemployment rate much higher than 10.5 percent, but mainstream economists admittedly have been wrong for much of the past 18 months.

(Margaret Talev contributed to this report.)

JOBS REPORT WINNERS AND LOSERS:

Losers:

- The professional and business services sector led the job losers, shedding a whopping 180,000 jobs.
- Manufacturers fared little better, dropping 168,000 jobs.
- Construction continued its deep slump, as builders and contractors shaved another 104,000 jobs.
- Finance, which includes real estate and banking, rid itself of 44,000 employees as bank failures, mergers, the housing slump and financial sector turmoil continue.
- Retail sector employment fell by 40,000.

Winners:

- Education and health care, which added 27,000 jobs.
- Government, which is up by 9,000 jobs.

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