

Thank God It's Friday!

January 9, 2009



All eyes were focused on this morning's job number. The U.S. economy is 70% driven by consumer spending, therefore, JOBS give us a pretty good picture of our economy's health. Naturally, when you're unemployed, you cut back on spending. But when your neighbor loses her job, you also cut back on spending. So it should be no surprise that today's jobs report was being monitored closely. As expected, it was terrible, but not as terrible as some economists predicted. In December, 524,000 jobs were lost. We also learned today that our nation's unemployment rate is above 7% for the first time since 1993. No question that it is incredibly tough out there.

But this isn't news; it's more like validation of suspicion. In fact, the buzz all week on Wall Street was anticipating a loss of over 600,000 jobs. That would have been really painful, and would likely have sent a terrible message for things to come. However, employment numbers usually get worse as economic conditions improve. Why? Because it is a lagging indicator, i.e., it's looking backwards and not forwards. By the time the worst economic numbers are reported, our economy will have already improved. It's like watching a game on tape delay; what you're seeing is already in the past tense, and not necessarily an indication of the final score.

We've discussed many times, and as recently as our Winter Newsletter that hit your mailboxes this week, that things will get worse before they get better, economically. Today's unemployment report was Stage 1 of the validation of suspicion. Consumers are tightening their belts, and companies continue to cut jobs and cut spending. The Obama stimulus package addresses these problems: It is job-focused. The economy is in bad shape. But the Market knows that.

Before you ruin your weekend listening to pundits predict this will be the worst recession since the Great Depression, please consider the following facts: While the magnitude of job loss represents a lot of misery, the American labor force is some two-and-a-half times larger than it was right after the war. The 1.9% drop in employment last year was smaller than the 2.7% 12-month declines recorded at the depths of the 1974-75 and 1981-82 recessions. As a new database from the Federal Reserve Bank of Minneapolis helpfully shows, the percentage decline so far in this recession is exactly equal to the median decline at this stage of the ten post-war recessions.

We've experienced a nice stock rally from the October and November lows, rising 18%. Bonds have done even better. The Government continues to fight this crisis to instill confidence, and prevent further damage. Relative stability has returned in comparison to the chaos in the Fall. And in this environment, in which the Stock Market is attempting to form a bottom, both the Dow and the S&P are holding above their 50-Day Moving Averages for an extended period of time for the first time since May. We are seeing higher lows, now we need to see higher highs from the November lows. Risks remain high, and confidence is still low, but traffic is finally flowing on the road to recovery, and a lot of gridlock has been cleared.

By: Mike Frazier

