Economists Are at a Loss; So Are Jobs

Most economists were expecting a pickup from May, with job growth estimates ranging from 100,000 to 175,000, and an upward revision on the May numbers as well. Neither happened. A mere 18,000 jobs were created in June, and the May numbers were revised downward from 54,000 to 25,000. Economists tried to explain away the poor May numbers, blaming everything from the weather (too hot, too cold, too rainy, too windy) to the disruption caused by the tsunami in Japan. But with those excuses now counter-balanced by excellent weather, cessation of tornadoes, and the Japanese car makers coming back online, there weren't any excuses this time.

Not that the economists didn't try.

Trim Tabs tried to gainsay the market report on Wednesday, two days before the BLS report, with the following:

The U.S. economy added 171,000 jobs in June. The June gain follows increases of 127,000 in May and 181,000 in April.
Trim Tabs employment estimates are based on analyses of daily income tax deposits to the U.S. Treasury from all salaried U.S. employees. They are historically more accurate that initial estimates from the Bureau of Labor Statistics. (emphasis added)

When confronted with the BLS numbers, Trim Tab's response was curt: "We believe the BLS estimate is wrong."
Dennis Gartman, editor of The Gartman Letter,

The Gartman Letter was equally blunt about the surprisingly dismal numbers from the BLS: "We'll see material upward revisions to the June data."

Jan Hatzius of Goldman Sachs who projected 125,000 jobs in June later confessed "that one of [our] primary models may no longer be useful in predicting economic trends…We still expect a pickup in growth in [the second half of the year] but the downside risks to this view have increased." Joe LaVorgna of Deutsche Bank had raised his June estimate to 175,000 new jobs following ADP's announcement on Thursday that 157,000 new jobs were created in June. Chastened by the BLS numbers, LaVorgna said, "It is too early to throw in the towel on an expected second half recovery…either the June data were an outlier, or the other [data] series will weaken over the next month or so, confirming what we saw in June."

The numbers from the BLS were truly appalling, with nary a bright spot to be seen:

– The unemployment rate increased to 9.2%
– The number of unemployed increased by 445,000

– The total unemployed remained at 14 million
– Almost half of them were unemployed for six months or more
– The "participation" rate – those who are working or looking for work – fell to the lowest since March, 1984 (not a misprint)
– Temp workers dropped as well, falling by 12,000, giving the lie to increased hiring to permanent status in the near future.
– Average workweek hours fell
– Average hourly wages fell
– The broadest measure of unemployment increased from 15.8% in May to 16.2% in June
– Discouraged workers increased from 822,000 to 982,000.

What about the stimulus (stimuli) that was supposed to work wonders, according to Keynesian theory? That theory presupposes that government should spend more money during recessions to "jump start" the economy, even if it requires deficit spending. As noted by Mark Calabria of the Cato Institute http://www.cato-at-liberty.org/on-government-spending-and-job-creation/ as noted by

"Current federal expenditures have increased about 41% since the housing market peaked in 2006. Has all this government spending generated many jobs?" In a remarkable graph, provided by the Federal Reserve Bank of St. Louis, Calabria proves his point: "The more government has spent, the more people have lost their jobs. This suggests to me that continued massive government spending is not going to turn around the job market."

Rea Hederman, writing for the Heritage Foundation, notes that government spending is usually counter-productive and its spending on ideological policy choices is hampering, even ham-stringing, the economy. Businesses aren't likely to expand in an environment where

– Health care reform legislation raises the costs of hiring employees
– New financial regulations make it difficult to borrow
– Pending EPA regulations raise the cost of energy
– Promised tax increases on the most successful business dampen enthusiasm for startups
– Obama's NLRB foists unions onto employers and employees

The only surprising thing about the BLS job numbers announced last week is that they weren't even worse. The government's continued attempts to stimulate the economy with borrowed money have only increased the uncertainty surrounding starting and growing a business. It's the production of goods and services that consumers want and are willing to pay for that is the foundation of the capitalist system. Rewarding capital, not punishing it, is the only way positive growth in jobs and employment can be achieved. Until government is restrained from meddling and stimulating, unemployment numbers are likely to remain high for years.

Once the awful job numbers announced by the Bureau of Labor Statistics on Friday were digested, it was clear that the clairvoyant economists looking into their crystal balls were dead wrong — again.