

Government securities investors and the ranks of the unemployed had one thing in common in May: each group faced extended duration.

Fewer new job losses, but the length of time out of work is still growing

U.S. Treasury prices took a pounding last month as Washington made plans to issue a record amount of debt, creating fear of inflation among Treasury investors throughout the world, including China. This fear drove up long-term bond yields sharply, and for a variety of technical reasons, extended the duration of government bond portfolios. Generally speaking, duration is the elasticity of a bond's price with respect to interest rates.

In the job market, average duration is a very different concept. It's the average length of time a person spends out of work, and that's a number that government reports show continues to grow very sharply. As of May 2009, the average unemployed person spent 22 and a half weeks without a job, up from 16 weeks and six days year earlier. That's one factor that helped push the nation's unemployment rate up from 8.9 percent to 9.4 percent last month. (Source U.S. Department of Labor).

Nonfarm payroll employment fell by 345,000 in May, about half the average monthly decline for the prior six months, and a number that was less than expected. Since trends in employment are regarded as a lagging rather than leading economic indicator (lagging means the data show what has happened rather than point to what may happen in the future) Wall Street took the June 6 report as a positive sign that the worst of the recession might be over.

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Less than expected, but widespread

We think a closer look at the figures, however, suggest there won't be any boom in consumer spending any time soon. The number of unemployed persons increased by 787,000 to 14.5 million in May. Since the start of the recession in December 2007, the number of unemployed persons has risen by 7.0 million, and the unemployment rate has grown by 4.5 percentage points. The number of long-term unemployed (those jobless for 27 weeks or more) increased by 268,000 over the month to 3.9 million and has tripled since the start of the recession.

Job losses in the auto industry and retail auto dealerships made news in May and prompted Congressional hearings, but job losses continued to be widespread across most sectors. The rate of decline moderated in several industry groups, including construction, professional and business services, and retail trade.

Three durable goods industries — motor vehicles and parts (-30,000), machinery (-26,000), and fabricated metal products (-19,000) — accounted for about half of the overall decline in factory employment. Only half as many people now work in the auto industry as did during the industry's most recent cyclical peak in February 2000, the Labor Department says.

Financial activities employment continued to decrease in May (-30,000). The securities industry lost 10,000 jobs and real estate lost 9,000. Employment at banks continued to trend down, although the May job loss was well below the average job loss for the prior six months.

No rebound in energy yet, not much government stimulus, either

The sharp rise in energy prices in May and early June has not led to a rebound in hiring at mining or oil companies. Some 11,000 jobs were lost in the resources sector in May, the same amount as was cut in April, as more rigs were shut down. Many investment professionals who follow the sector, including us, believe it will be at least three to nine months before excess energy supplies are reduced and domestic demand recovers enough to justify adding to payrolls.

Local government jobs — which typically rise during the summer — were mildly positive, up about 8,000 last month. However, that was more than offset by a 15,000 job cut at the federal level in May, the first decline in employment by Washington since the Obama administration took over in January. There are still 86,000 more federal workers than there were in May 2008.

Currently, the major bright spots in the job market appear to be health services, education and some seasonal jobs related to summer recreational activities. It would also appear that Washington social spending is beginning to have an effect on private sector payrolls in some social service-related occupations (see chart below).

Some sectors that are growing	
Changes in jobs April 2009 to May 2009	
Health care	+23,500
Bars and restaurants	+8,900
Private education	+7,900
Child day care	+7,000
Social assistance	+5,900
State/local government education	+5,400
Performing arts and sports	+4,100
Waste management	+2,300

Source: US Dept of Labor.

Historically, the equity market has been much more of an indicator of economic growth than the bond market, which sometimes has reacted in the opposite direction of the overall economy. It took over a year for changes in fiscal and tax policies adopted in the deep recession of 1981 — amid an environment of much higher interest rates and inflation — to translate into higher stock prices, and another half a year for job growth to resume. Over the next two decades, the unemployment rate would gradually drop from 10.8 percent to a generational low of 3.8 percent in April 2000, just before the technology sector stock “bubble” burst.

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