Economy shed 598,000 jobs in January

Edmund L. Andrews

The United States lost almost 600,000 jobs last month and the unemployment rate rose to 7.6 percent, its highest level in more than 16 years, the Labor Department said Friday.

Scott Olson/Getty Images
A job fair in Chicago on Thursday.

It was the biggest monthly job loss since the economy tipped into a recession more than a year ago, and it was even worse than most forecasters had been predicting.

In addition, the government revised the estimates for previous months to include another 400,000 job losses. For December, the government revised the job loss to 577,000 compared with an initial reading of 524,000. Over all, it said, the nation has lost 3.6 million jobs since it slipped into a recession in December 2007.

“Businesses are panicked and fighting for survival and slashing their payrolls,” said Mark Zandi, chief economist at Moody’s Economy.com. “I think we’re trapped in a very adverse, self-reinforcing cycle. The downturn is intensifying, and likely to intensify further unless policy makers respond aggressively.”

Despite the jobless number, Wall Street was higher; all three major exchanges were up about 2 percent at noon.

President Obama, in comments Friday morning, said the jobs report reinforced the need for Washington to act quickly, and he urged Congress to pass the economic stimulus package.

“All of us in Washington must remember that we’re here to work for the American people,” Mr. Obama said. “And if we drag our feet and fail to act, this crisis will turn into a catastrophe.”

As in previous months, employers in January slashed their payrolls in almost every industry except health care. Manufacturers eliminated 207,000 jobs, more than in any year since 1982. The construction industry eliminated 111,000 jobs. And retailers, who were wrapping up their worst holiday shopping season in years, eliminated 45,000 jobs.

One modest exception was in workers’ wages, which have thus far not reflected the dramatic plunge in employment. Hourly earnings edged up to $18.46, up 5 cents, and average weekly earnings climbed $614.72, up $1.67.

But over all, the new data reinforced the impression of an economy that has become increasingly trapped in a vicious circle of slumping consumer demand, falling business investment, rising unemployment and mounting losses in the banking system.

Although the United States officially slipped into a recession in December 2007, the decline was erratic and temporarily disguised by the impact of the emergency tax-rebate last spring.

Since September, analysts say, economic activity has plunged on almost every front. The monthly pace of job losses shot up to about 500,000 a month for the last three months of

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2008, and the new report offered no hint that a bottom was in sight. Last week, the number of Americans filing first-time jobless claims reached a 26-year high, with 626,000 filling out applications.

“This is a horror show we’re watching,” said Lawrence Mishel, president of the Economic Policy Institute, an economic research organization in Washington. “By every measure available — loss of employment and hours, rise of unemployment, shrinkage of the employment to population rate — this recession is steeper than any recession of the last 40 years, including the harsh recession of the early 1980s.”

Most forecasters had predicted that the economy would lose about 540,000 in January. Instead, the Labor Department estimated that 598,000 jobs disappeared.

To be sure, monthly payroll numbers are subject to big revisions in the months that follow. But most other indicators of the job market had been trending worse as well.

Major retailers, rocked by one of the worst holiday shopping seasons in memory, have been shutting stores and laying off of armies of workers in recent weeks. On Thursday, retailers reported that sales fell 1.6 percent in January, the fourth consecutive month of steep declines.

And in a sign that the country’s slowdown continues to reach beyond its borders, Canada, America’s largest trading partner, reported Friday that its unemployment rate jumped to 7.2 percent in January, from 6.7 percent in December.

In Washington, Friday’s gloomy job report put more pressure on Congress to pass an economic stimulus bill. The House passed a bill last week that would provide more than $800 billion in spending and tax cuts. In the Senate, still bogged down by objections from Republicans, lawmakers were hoping to be able to muster enough votes to pass a measure on Friday

“If anything can persuade Congressional Republicans to stop their hyper partisan sniping at the recovery package, these disastrous employment numbers should be it,” said Representative Barney Frank, the Massachusetts Democrat who leads the House Financial Services Committee.

For comparison, the unemployment rate was 4.9 percent in January 2008. But some analysts contend that the current rate of 7.6 percent understates the labor market’s problems because the percentage of adults participating in the labor force has slumped, and those people are not listed as “unemployed.”

Peter Morici, an economist at the University of Maryland, estimated that if the labor force participation rate today was as high as it was when President Bush took office, the unemployment rate would be 9.4 percent.

Ian Shepherdson, chief North American economist for High Frequency Economics in Valhalla, N.Y., said the government had become the only source of energy left to break the cycle of slumping demand for goods and falling production.

“The public sector needs to act,” Mr. Shepherdson wrote in a note to clients. “It needs to prevent an endless spiral of attempts to increase saving, leading to reduced spending, leading to reduced incomes, leading to further attempts to raise savings, and so on.”

“We remain firmly of the view that the package now in Congress is the bare minimum required to slow the shrinkage of the economy over the next year,” he said.

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Many economists expect that the economy will continue to contract until July at the very least, but at a slowing pace in the second quarter.

The Federal Reserve continues to pump money into the financial system at a furious pace. Since September, the central bank has more than doubled its reserves, from $900 billion to more than $2 trillion, by literally creating new money.

The Fed has used some of that money to help bail out financial institutions, from Citigroup and Bank of America to the American International Group.

It has been pumping hundreds of billions of dollars into lending programs, stepping in for banks and other financial institutions to buy up a widening array of corporate debt. Later this month, the Fed will begin a $200 billion program, in conjunction with the Treasury, to finance consumer debt ranging from car loans and credit card debt to student loans.

But analysts say that the big problem is not a shortage of money, but a shortage of demand for products by businesses and consumers. As a result, banks are overloaded with excess reserves, made available by the Fed, which they are often simply parking at the Fed.

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