



## U.S. Economy: Payrolls Fall, Unemployment Rate Climbs (Update4)

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By Shobhana Chandra

June 6 (Bloomberg) -- The U.S. lost jobs for a fifth month and the unemployment rate rose by the most in more than two decades, as an influx of students into the workforce drove the biggest jump in teenage joblessness since at least 1948.

Payrolls fell by 49,000 in May, the Labor Department said today in Washington. The jobless rate increased by half a point to 5.5 percent, higher than every forecast in a Bloomberg News survey. The surge in youth unemployment exacerbated the increase in joblessness, as every category except Hispanics showed a gain.

Factories, builders and retailers axed workers last month; **UAL Corp.**'s United Airlines, truck-engine maker Cummins Inc. and bookseller Borders Group Inc. are among those announcing cuts this week as businesses try to survive the slowdown. Treasuries rose while stocks and the dollar slid after the report.

``This is an ugly report on the labor market," said **Allen Sinai**, chief economist at Decision Economics Inc. in New York. ``Most of the economy looks in recession."

Ten-year Treasury yields dropped to 3.92 percent at 4:19 p.m. in New York, from 4.04 percent late yesterday. The Standard & Poor's 500 stock index fell 3.1 percent to 1,360.68.

Revisions subtracted 15,000 from payroll figures previously reported for March and April.

Economists had projected payrolls would drop by 60,000 after a previously reported 20,000 decline the prior month, according to the median of 79 forecasts in a Bloomberg News survey. The jobless rate was forecast to rise to 5.1 percent.

### Fed Outlook

The Federal Reserve has already incorporated forecasts for rising unemployment into its projections. Chairman **Ben S. Bernanke** this week signaled that officials are done for now with lowering interest rates, warning about the danger of a jump in public expectations for inflation.

``I'd be surprised if the Fed lowered interest rates yet another notch in response to the 5.5 percent unemployment rate," **Edmund Phelps**, winner of the 2006 Nobel Prize for economics and a professor at Columbia University, said in an interview today.

Former St. Louis Fed President **William Poole** said today that the increase in joblessness ``makes the Federal Reserve's job much more difficult." Given increases in consumer prices, ``what concerns me is the Fed has not been speaking of the possibility of a necessity of rate tightening policy despite" the weakening economy, Poole said in an interview with Bloomberg Radio.

### Political Reaction

The Democratic and Republican candidates for president expressed concern about the surge in unemployment and touted their economic proposals to help spur the economy.

``Today's jobs report is deeply troubling," Democratic Senator **Barack Obama** of Illinois said in a statement. He said the figures underscored the need for his proposed reduction in taxes for middle-income earners. Republican Senator **John McCain** of Arizona urged lawmakers to pass legislation helping to stem home foreclosures.

President George W. Bush today said the administration is seeing signs that the economic stimulus is beginning to work and Congress must "send a clear message" that the tax cuts he advocated become permanent.

The **unemployment rate**, the highest since October 2004, reflected an expansion of the workforce, led by teenagers. The increase in the rate was the biggest since February 1986.

#### Youth Unemployment

Some of the increase in youth unemployment may reflect an earlier end to the school year than incorporated in the Labor Department's seasonal-adjustment calculations, economists said.

Young people are "swelling the labor pool, but they're also leading to a higher unemployment rate," said **Roger Kubarych**, chief U.S. economist at Unicredit Global Research in New York, in an interview with Bloomberg Television. "It used to be you stayed in school until the middle of June, late June."

Lehman Brothers Holdings Inc. economists estimated the unemployment rate may drop back by 0.1 or 0.2 percentage point in June because of the seasonal-adjustment effect. **David Resler**, chief economist at Nomura Securities International in New York, said the May rate was as much as 0.3 percentage point higher because of the school-year impact.

It's hard for students to find summer work because "no one is looking for someone to stay until mid-August," Jackie Brooks, 19, of Mishawaka, Indiana, said in a phone interview. She recently finished her first year at Indiana University in Bloomington and was looking for work at a bookstore or a café. "If I tell them I have to leave in mid-August, they say they can't take me."

#### Recession Definition

A loss of jobs is one of the criteria used by the National Bureau of Economic Research to determine when recessions begin and end. The group, the official arbiter in the U.S., defines contractions as a "significant" decrease in activity over a sustained period of time. Changes in sales, incomes, production and gross domestic product are also considered.

Payrolls shrank by 324,000 workers in the first five months of the year. In 2007, the economy generated 91,000 new jobs a month on average.

Factory payrolls fell 26,000 after declining 49,000 in April. Economists had forecast a drop of 40,000. The decrease included a loss of 7,500 computer and electronics manufacturing jobs. Auto factories added 4,400 workers.

**General Motors Corp.** has said 19,000 workers, or about 26 percent of its union workforce, accepted the latest offer to leave, and most of those will stop working by July 1. Ford Motor Co. will trim salaried-employee costs by 15 percent by eliminating contract workers and not filling open jobs.

#### Housing Meltdown

The protracted housing slump and resulting collapse in subprime lending were also reflected in today's report. Payrolls at builders fell 34,000 after decreasing 52,000. Financial firms pared payrolls by 1,000, after a gain of 1,000 the prior month.

Service industries, which include banks, insurance companies, restaurants and retailers, added 8,000 workers after increasing by 72,000 in April. Retail payrolls decreased by 27,100 after a drop of 38,700.

Government payrolls increased by 17,000 after a gain of 12,000, indicating the total decline in private payrolls was 66,000.

Consumer confidence last month sank to the lowest level in more than 15 years as the employment outlook deteriorated, according to a report from the Conference Board, a New York research group.

The average work week was unchanged at 33.7 hours and the factory work week also remained unchanged at 41 hours. Overtime decreased to 3.8 hours from 4 hours. That brought the average weekly earnings up by 0.3 percent to \$604.58 last month.

#### Wages Gains

Workers' average hourly wages rose by 5 cents, or 0.3 percent, to \$17.94. Economists surveyed by Bloomberg had forecast a 0.2 percent increase from the prior month.

Declines in employment signal consumer spending, which grew in the first quarter at the slowest pace since the 2001 recession, will keep slowing.

``The customer is clearly under pressure when it comes to higher gas and food prices," [Thomas Schoewe](#), chief financial officer at Wal-Mart Stores Inc., told reporters yesterday.

Wal-Mart, the world's largest retailer, and Costco Wholesale Corp. yesterday said sales climbed more than analysts estimated as shoppers sought discounts to offset soaring food and fuel bills.

Airlines are getting throttled by higher fuel costs.

``The airline industry is in a crisis," Continental Airlines Inc. Chief Executive Officer [Larry Kellner](#) and President [Jeff Smisek](#) said in a memo to the Houston-based carrier's employees. The reductions ``are necessary to secure our future."

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