US jobless claims fuel labour woes

By Alan Rappeport

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New claims for unemployment insurance recorded an unexpected rise last week, underscoring the arduous path to recovery facing the US labour market.

Separately on Thursday, sales of existing homes rebounded from a record low in August, offering hope the residential real estate market could be stabilising.

Initial jobless claims rose 12,000 to 465,000, the labour department said on Thursday. Economists had expected new claims to remain flat after they fell to a two-month low the week before.

Claims have been improving in recent weeks after hovering near the half-million mark during the summer. The less volatile four-week average of new claims is down 3,250 to 463,250.

Economists argue that new claims need to fall to the low 400,000 level before the economy can sustainably add workers.

The data come as the Obama administration is under political pressure to improve the labour market ahead of November’s midterm elections. Earlier this week the Federal Reserve described a soft economic recovery and indicated that it might take additional measures to stimulate the economy if growth continues to slow.

Companies have been cautious about hiring as they face an uncertain economic recovery. Some analysts have argued that the US is facing a “structural” employment problem, where businesses are unable to find suitable workers because of a lack of people with appropriate skills.

Last week, FedEx, the US package shipping company, said it would cut 1,700 jobs as it consolidates its struggling freight business.

At the Goldman Sachs retail conference earlier this month, Bill Simon, Walmart’s chief executive, described how customers line up at its stores before midnight at the start of each month when their electronic government benefits cards are activated to shop for items such as baby formula, milk, bread and eggs.
“Our sales for those first few hours on the first of the month are substantially and significantly higher,” Mr Simon said.

The number of Americans continuing to claim jobless benefits declined, falling by 48,000 to 4.489m. Although that improvement is welcome, the decrease is partially attributable to idle workers seeing their benefits expire.

Florida suffered the biggest rise in claims, with more job losses in construction, the services sector and manufacturing. Several states, such as California, Texas, and Nevada, had fewer claims thanks to a shorter work week.

A separate report from the Conference Board showed that its leading indicators index rose by 0.3 per cent. Although that was stronger than expected, the report said it suggested little change in economic conditions during the next few months and a weak economy through 2011.

Meanwhile, home resales rose by 7.6 per cent to an adjusted annual rate of 4.13m from July to August, according to the National Association of Realtors. That was better than Wall Street analysts had expected but still left sales off by nearly 20 per cent from the same month a year ago.

The US housing market is showing some signs of stability after sales and prices dropped after government support was withdrawn last spring.

“The housing market is trying to recover on its own power without the home buyer tax credit,” said Lawrence Yun, chief economist at NAR. “Despite very attractive affordability conditions, a housing market recovery will likely be slow and gradual because of lingering economic uncertainty.”

Median home prices climbed by just 0.8 per cent year-on-year to $178,600 in August. Distressed sales accounted for 34 per cent of all transactions, up from 31 per cent a year ago.

Regionally, home resales were strongest in the west and northeast and rose modestly in the south and midwest.

Christopher Mayer, a professor of real estate economics at Columbia Business School, said that the biggest problem facing the housing market is tight credit and that stimulus measures such as the first-time homebuyer tax credit only succeeded in shifting demand rather than generating new buyers.

“I think the Federal government needs to take a more active role in opening up credit,” Mr Mayer said. “We’re in a place in the economy where ordinary borrowers are having an incredibly difficult time borrowing.”