

WILL EMPLOYMENT EVER PICK UP?

WEB BUZZ 2009.11.09

We wonder - are we in the process of creating a permanent underclass in this country? Let's take a look at several recent economic releases and attempt to see what effect they might have in regard to future employment.

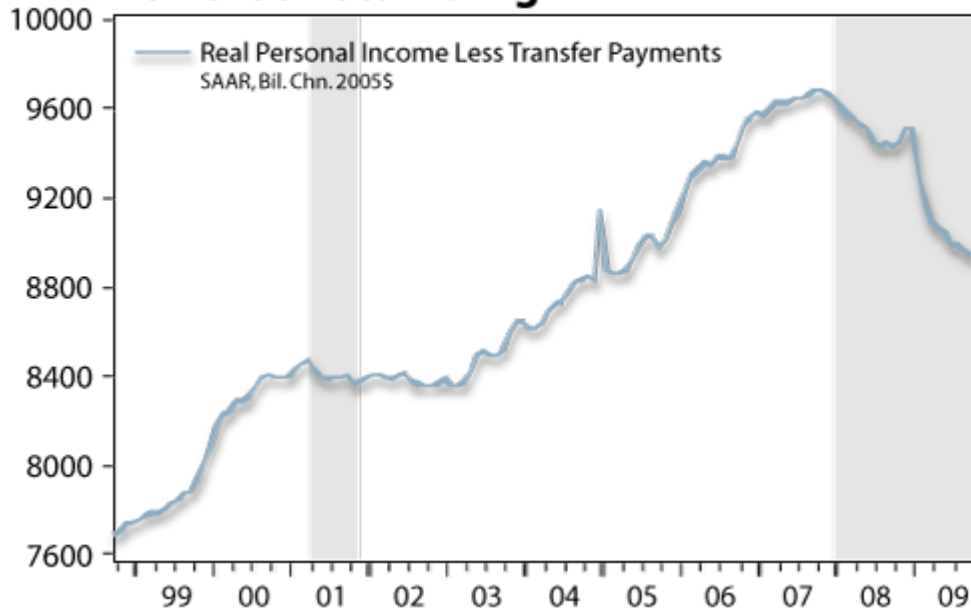
1. Labor costs have fallen at a 5.2% rate, the greatest twelve month drop since 1948.
2. Productivity jumped at a 9.5% annual rate for the quarter ended 9/30/09.

These are usually positive economic signs. One would normally think that this would lead to business investment, which is the real driving force in economic growth, but to date that has not happened. Business continues to hoard cash for a rainy day, and layoffs and other cost-cutting measures continue to go forward, albeit at a slower pace. Johnson & Johnson recently announced that they will be laying off 7% of their existing labor force. "People just aren't spending as much as they used to," CEO Bill Weldon said. Hoping to be helpful, just the other day the Senate unanimously extended unemployment compensation for the fourth time. This is more than any other time in our memory. All of this causes us to look back at the 1930s. Why? Because the main reason that unemployment stayed at 15 to 25% for nine years was the immense intervention into the free market economy by Hoover and Roosevelt. And to put icing on the cake, Roosevelt with his socialistic policies scared business to death. They would not invest except to cut costs. Does that sound like today? Yes, it does. These anti-business policies made a permanent underclass in the 1930s and it may be doing the same today.

Please note the following chart. Real income (i.e. without transfer payments) is in a freefall. It looks as if business has adjusted fairly well to date to the new reality (revenues down 15% or so). How long can the government prop up this

newly created underclass? Do things really look as bullish as the stock market indicates? We don't think so.

Without Crutches, Consumer Spending Power Still Stumbling



Adapted from Richebacher Letter