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Deepening Cycle of Job Loss Seen Lasting Into '09

By PETER S. GOODMAN

As automakers dropped their latest batch of awful sales numbers on the market on Tuesday, reinforcing the gloom spreading across the economy, the troubles confronting American workers seemed to intensify.

Plummeting home prices have in recent months eliminated jobs for hundreds of thousands of people, from bankers and real estate agents to construction workers and furniture manufacturers. Tighter lending standards imposed by banks in the wake of huge mortgage losses have made it hard for many Americans to secure credit — the lifeblood of expansion in recent years — crimping the appetite of consumers, whose spending amounts to 70 percent of the economy.

Joblessness has accelerated, and employers have slashed working hours even for those on their payrolls, shrinking the size of paychecks just as workers need them the most.

Now, add to that unsavory mix the word from automakers that sales plunged in June — by 28 percent for Ford, 21 percent for Toyota and 18 percent for General Motors — a sharp sign that consumers are pulling back, making manufacturers more likely to cut production and impose more layoffs. Until recently, the weak labor market has been marked more by the reluctance of employers to create new jobs than by mass layoffs.

Among economists, the sense is broadening that the troubles dogging the economy will be stubborn, leaving in place an uncomfortable combination of tight credit and scant job opportunities perhaps well into next year.

"It's a slow-motion recession," said Ethan Harris, chief United States economist for Lehman Brothers. "In a normal recession, things kind of collapse and get so weak that you have nowhere to go but up. But we're not getting the classic two or three negative quarters. Instead, we're expecting two years of sub-par growth. Growth that's not enough to generate jobs. It's kind of a chronic rather than an acute pain."

Mr. Harris expects tepid economic growth and a shrinking labor market to persist through the fall of 2009.

The national unemployment rate climbed a full percentage point over the last year to 5.5 percent in May, according to the Labor Department. That does not include people who are jobless and have given up looking for work, or people who have been bumped to part-time jobs from full-time. Add in those people and the so-called underemployment rate rises to 9.7 percent, up from 8.3 percent in May 2007, according to the Labor Department.

Goldman Sachs forecasts that the unemployment rate will peak at 6.4 percent late in 2009 before the picture improves, meaning that the painful process of shedding jobs may be only half-way complete.

"The labor market is clearly deteriorating, and it's highly likely to keep deteriorating," said Andrew Tilton, an economist at Goldman Sachs. "It's clear that the housing downturn and credit crunch are still very much under way. Clearly, there are more jobs to be lost in housing, finance and construction — hundreds of thousands of more jobs to be lost collectively."

On Thursday, the Labor Department will release its snapshot of the job market for June. Economists generally expect the report to show 60,000 more jobs lost, marking the sixth consecutive month of decline.

But many anticipate the unemployment rate will nudge down a little bit, swinging back from an abrupt climb that could have been exaggerated by survey glitches in the previous month, when the rate jumped by half a percentage point — the sharpest one-month spike in 22 years.

If the unemployment rate were to hold steady or rise, that would likely spook markets, underscoring the impact of the economic slowdown.

"Slowing wage growth and falling employment is absolutely toxic if your business is selling anything to consumers," said Ian Shepherdson, chief United States economist for High Frequency Economics.

Recent indications lend credence to the view that the job market is in the grip of a sustained downturn. Three weeks in a row, new unemployment claims have exceeded 380,000, a level generally associated with recession. Construction spending fell in May. The University of Michigan Consumer Sentiment Survey, which tracks attitudes about business and personal finance, has dropped to a depth last seen in 1980.

On the factory floor, a weak dollar has been fanning export sales. The I.S.M. Manufacturing Index — a widely watched gauge of factory activity — nudged up in June to 50.2 from 49.6 in May, entering barely positive territory, which indicates a slight expansion.

But that mostly reflected a buildup of inventories and higher prices for raw materials, and not an improvement in orders for factory goods, said Stuart G. Hoffman, chief economist at PNC Financial Service Group in a note to clients. If business stays weak and orders do not materialize, factory layoffs could accelerate. Indeed, the employment component of the index declined to its lowest level in five years.

The slide in the labor market has become both symptom and cause of a weak economy, pulling many families into a downward spiral. Back when housing prices were still rising, Americans borrowed exuberantly against the value of their homes to finance renovations, vacations and shopping sprees. But that artery of finance has constricted considerably along with access to credit cards, forcing a reversion to the traditional limits of household finance. Millions of American families must now confine their spending to what they can bring home from work.

With job losses growing and working hours shrinking, many paychecks are eroding, prompting millions of families to cut their spending. Soaring prices for food and gasoline are overwhelming modest wage gains for most workers, leaving households with even less money to spend. All of which deprives struggling businesses of sales, prompting them to shed more workers, sending the cycle down another turn. Starbucks announced on Tuesday that it would close stores and eliminate up to 12,000 jobs, about 7 percent of its work force.

The fear of a downward spiral prompted the Bush administration to unleash $100 billion worth of tax rebates in the hopes that recipients would spend money and spur sales. The Treasury has already dispensed more than $78 billion, and the money appears to be finding its way into cash registers, with consumer spending climbing by 0.8 percent in May, according to the Commerce Department.

Economists expect the rebates will continue to help retail sales through the summer, fueling modest economic growth that spares some jobs and prevents an outright contraction.

But few expect these rebate-laced sales to expand the job market, because businesses understand that the one-time surge of money will wear off later this summer.

Many experts expect the economy to then be pulled back into the weeds by the same forces that have led the downturn — declining home prices, tighter credit and leaner paychecks.

"It's going to be very hard to overcome those headwinds," said Mr. Harris, the Lehman economist.