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AP Photo: Recent college graduate Kenan Duncan, 24, of Mukilteo, Wash., left, fills out a job application as fellow Job seekers talk with recruiters from potential employers at the Monster.com Job Fair at the Red Lion Bellevue Inn, in Bellevue, Wash., on Thursday, Jan. 31, 2008.

AP Employment Drops in a Pink Slip Blizzard

Friday February 1, 4:45 pm ET
By Jeannine Aversa, AP Economics Writer

Employment Falls for the First Time in More Than 4 Years, a Fresh Sign of Possible Recession

WASHINGTON (AP) -- In a shower of pink slips, U.S. employers cut jobs last month for the first time in more than four years, the starkest signal yet that the economy is grinding to a halt if it hasn't already toppled into recession.

ADVERTISEMENT Conditions are deteriorating, according to the latest employment snapshot by the Labor Department, which showed nervous employers slicing payrolls by 17,000. The country hadn't seen such a nationwide job loss since 2003, when employers were still struggling to recover from the last previous recession.

"We are certainly on thin ice," said John Silvia, chief economist at Wachovia. And even President Bush, normally a cheerleader for the economy, said there were "serious signs" it was weakening.

Wall Street, however, took the news in stride. The Dow Jones industrials rose 92.83 points to 12,743.19.

Job losses were widespread in January. Factories, construction companies, mortgage brokers and real-estate firms were among those eliminating jobs -- casualties of the housing bust and credit crunch. The government cut jobs for the first time since last July.

All those cuts swamped job gains in education, health care, retailing and elsewhere.

The unemployment rate actually dipped slightly to 4.9 percent, from 5 percent in December, as people left the labor force.

"Discouraged by a sluggish job market, many more adults are sitting on the sidelines," said Peter Morici, an economist and business professor at the University of Maryland.

Wage growth also slowed, another indication of belt-tightening. Smaller wage gains could make people who still have jobs -- already squeezed by high energy prices -- reluctant to spend, further hurting the economy.

President Bush prodded Congress anew to quickly pass an economic rescue package.

"There's serious signs that ... the economy is weakening and that we've got to do something about it," Bush said. On Capitol Hill, Democratic and Republican supporters of a stimulus package -- including tax rebates for people and tax breaks for businesses -- agreed the gloomy employment report underscored a need for urgency. The package is pending in the Senate, where there are disputes over attempts to expand it.

The Democratic presidential contenders, Sens. Hillary Rodham Clinton of New York and Barack Obama of Illinois, said the job losses were evidence of failed Bush policies. "We are sliding into a second Bush recession," Clinton said. Obama called the employment figures "troubling news" and urged Congress to extend unemployment benefits "for more time and to more people."

To help ease the credit crisis, the Federal Reserve announced it would provide cash-strapped banks with an additional \$60 billion in short-term loans through auctions later this month. The Fed started the auctions in December and has already provided \$100 billion in loans to banks.

With fears of recession growing, the Fed has gotten much more aggressive -- ordering two big interest rate reductions in just over a week. A severely depressed housing market, hard-to-get credit, turbulence on Wall Street and "some softening in labor markets" were cited by the Fed when it lowered rates by a bold half-point on Wednesday. The weak employment report would justify additional rate cuts, economists said.

The health of the nation's job market is a critical factor shaping how the overall economy fares. If companies continue to cut back on hiring and put a lid on wages, that will spell more trouble.

People running companies are concerned.

"They are thinking if there is some capital spending I should postpone for a while, I should do that. If there is some hiring I don't necessarily need to do right now, I can put that off for a few months to see what happens," said Joel Naroff, president of Naroff Economic Advisors. "The problem with that thinking is that more economic weakness or a recession can become somewhat of a self-fulfilling prophecy."

Average hourly earnings for jobholders rose to \$17.75 in January, a 0.2 percent increase from the previous month. It was half the pace logged in December. Over the past 12 months wages went up by 3.7 percent. With high energy and food prices, though, workers may feel like their paychecks aren't stretching as far.

The unemployment rate had shot up in December to 5 percent, from 4.7 percent in November. The magnitude of that increase -- something not seen since right after the September 2001 terror attacks -- set off alarms. In the past, such a big increase has signaled the economy was starting a recession or already in one.

With economic growth slowing this year, the unemployment rate will climb again. In fact, Mark Zandi, chief economist at Economy.com, predicts the jobless rate will rise to near 6.5 percent in early 2009.

The 17,000 drop was in total payrolls -- both government and private employers -- in January, the first monthly decline since August 2003. The government sliced 18,000 positions, while private employers added just 1,000, the fewest in nearly a year.

The government on Friday also released annual revisions -- based on more complete information -- that showed job creation was even weaker last year than initially thought.

The economy added an average of just 95,000 jobs per month in 2007, versus an earlier estimate of 111,000 a month. In 2006, payroll employment grew by an average of 175,000 a month.

Construction and factory workers have been especially hard hit by the meltdown in housing, which has

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catapulted home foreclosures to record highs. Construction companies cut 27,000 jobs last month and have lost 284,000 since employment peaked in September 2006. Spending by private builders on housing projects last year plunged by a record 18.3 percent, the Commerce Department said in a separate report.

Factories eliminated 28,000 positions in January, and have cut 269,000 jobs over the past 12 months. Manufacturing activity gained some ground in January, after contracting in December, the Institute for Supply Management said in still another report Friday.

The economy nearly stalled in the final three months of last year, and some economists believe it may actually be shrinking now.

Under one rough rule, the economy would have to contract for six months for the country to be considered in a recession. The likelihood of a recession has risen sharply over the past year, and analysts increasingly believe the U.S. will be in one during the first half of 2008. The worry is that people and businesses will hunker down and pull back their spending, sending the economy into a tailspin.

Bush said, "We're just in a rough patch. And, I'm confident we can get through this rough patch."

Employment report: <http://www.bls.gov>

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