



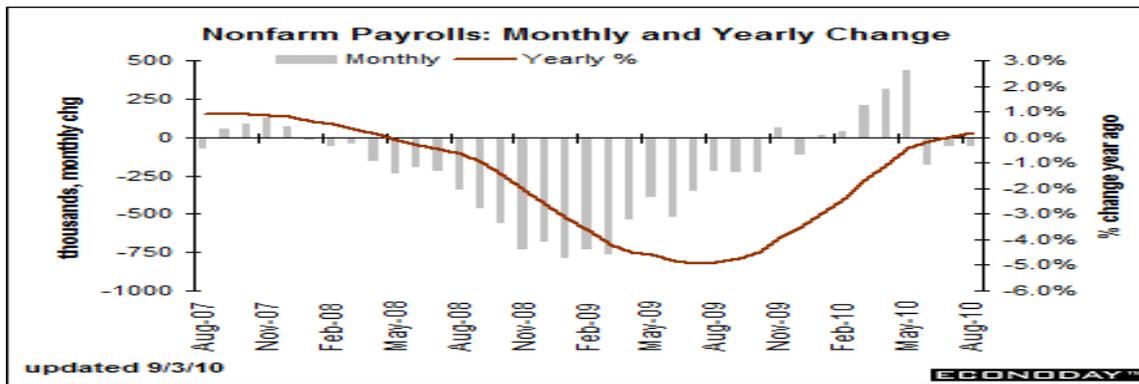
# Popular Economics

Promoting a Popular Understanding of Economics

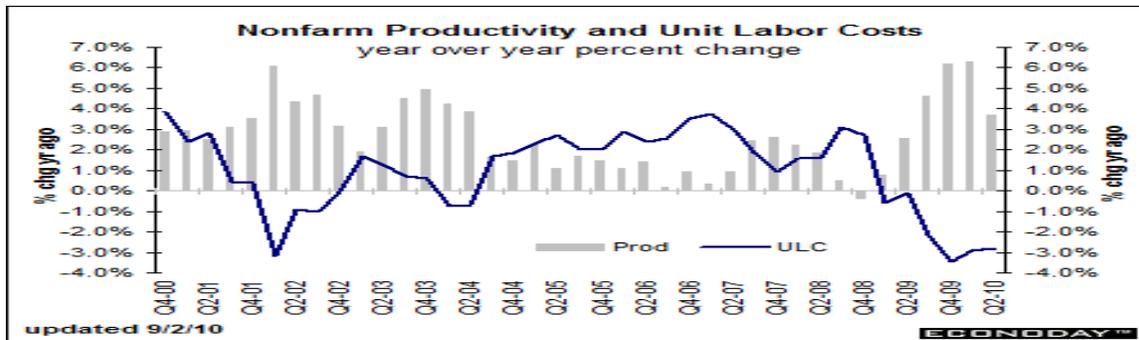
## Popular Economics Weekly The Jobs Are Coming

The August unemployment report supported both sides. Democrats said it showed more stimulus was needed, while Republicans said employers were holding back because of too much government—too many regulations and a soaring deficit meant higher taxes down the road.

There is no evidence that a fear of higher taxes (for the wealthiest) deters employers, of course. More than 20 million jobs were created during the Clinton years, when tax rates for the wealthiest were higher. Everyone is hewing to their ideological lines during this election year, in other words, regardless of the realities.



The realities are that employers are trying to squeeze maximum profits from their existing workforce, but that is no longer working. The best evidence for this is the latest labor productivity report that indicated very little additional output was coming from the existing workforce while labor costs were rising. Ergo, workers want more pay and benefits for any additional small increase of output. And so employers must begin to hire more workers, if they want to keep their productions costs down.



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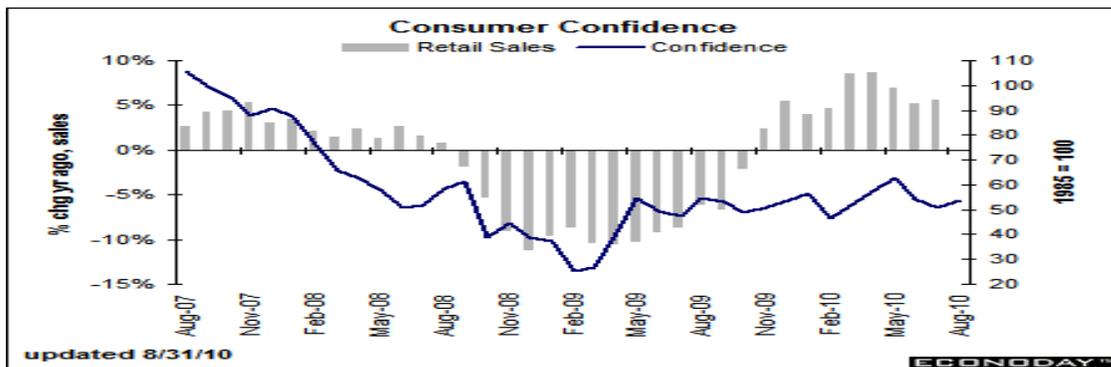
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Due to the slowdown in output and businesses already having cut labor costs to the bone, productivity fell notably in the second quarter. Nonfarm business productivity declined an annualized 1.8 percent in the second quarter after a 3.9 percent advance in the prior quarter. Unit labor costs (i.e., costs per worker) rebounded an annualized 1.1 percent in the second quarter, following a drop of 4.6 percent in the first quarter. Year-on-year, productivity was up 3.7 percent in the second quarter—down from 6.3 percent in the previous quarter. This is still a good number, and way above the longer term 2.5 percent productivity growth average.

The other unknown is the depth of consumer discontent, which drives so much of consumer buying. “The steady drip of bad news about the economy has sapped the confidence of buyers,” said Dr. Case. “And there is no understating the importance of expectations and confidence in this industry.”

The Conference Board's August consumer confidence index did rise 2-1/2 points from July, but August's 53.5 level is still down almost 10 points from May (July revised six tenths higher to 51.0). More say jobs are hard to get, at 45.7 percent of the sample's initial 3,000 respondents vs. July's 45.1 percent for the worst reading since February. Again, direction is a special concern as pessimism has increased over the past two months.



But Case-Shiller has their own sentiment survey, which polls San Francisco, Los Angeles, Milwaukee, and Boston homeowners, “asking them what they think is likely to happen to the value of their houses over the next year,” says Dr. Case. Values were expected to remain basically flat in the 08 and 09 surveys, but homebuyers anticipate a gain of 5.2 percent in the next year.

So a fragile optimism is returning, but dependent on very many factors. “The American Dream is not dead,” said Dr. Case. “It’s just taking a well-deserved rest.”

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