

Jobless claims jump to 637K; producer prices rise

Jobless claims rise more than expected on increased auto layoffs, producer prices also higher

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WASHINGTON (AP) -- Fresh reminders that the U.S. recession likely has passed its peak, but hasn't ended, emerged Thursday in reports that first-time claims for jobless aid and wholesale prices rose more than expected.

Economists said the jumps, while bitter reminders of the country's weak economy, were not cause for great concern. Jobless claims should ease after layoffs in the automobile industry are complete, while inflation remains under control.

The Labor Department said the number of new jobless claims rose to a seasonally adjusted 637,000, from a revised 605,000 the previous week. That's above analysts' expectations of 610,000.

Economists focused on the fact that initial claims remain below the peak reached in late March, a sign that the wave of mass layoffs announced earlier this year has crested.

"This is yet more evidence that we are now past the worst," Paul Dales, U.S. economist at Capital Economics, wrote in a research note.

Separately, the department said wholesale prices climbed 0.3 percent last month, larger than the 0.1 percent gain economists had expected. The biggest jump in food costs in more than a year offset a second monthly decline in the price of energy products.

Even with the larger-than-expected gain in the Producer Price Index last month, wholesale prices over the past year have fallen 3.7 percent, the biggest 12-month decline since 1950. While falling prices can raise fears about deflation, economists believe the efforts by the Federal Reserve to combat the recession will prevent a dangerous bout of falling prices.

Wall Street brushed off the reports and stocks rose modestly. The Dow Jones industrial average added about 40 points in midday trading, while broader indices also increased.

Most of the increase in jobless claims was due to auto layoffs, a department analyst said. Economists estimate Chrysler LLC has laid off 27,000 workers in the wake of its April 30 bankruptcy filing. Chrysler on Thursday told a bankruptcy court it plans to eliminate 789 of its dealers -- or about 25 percent of them -- nationwide as part of its restructuring process. And General Motors Corp. has said it will temporarily shut 13 factories beginning later this month through July, potentially affecting 25,000 workers.

Still, many economists expect the downward trend in jobless claims to return once the impact of the auto industry's job cuts has passed.

In another sign of labor market weakness, the tally of people continuing to receive benefits increased to 6.56 million from 6.36 million, setting a record for the 15th straight week and worse than analysts expected. The continuing claims data lags initial claims by one week.

Abiel Reinhart, an economist at JPMorgan Chase & Co., said the increase implies that the unemployment rate, which reached 8.9 percent in April, is continuing to rise. Many economists expect it to reach 10 percent by year's end.

The large number of people on the jobless benefit rolls is a sign that unemployed workers are having difficulty finding new positions.

Economists are closely watching the health of the labor market. If layoffs continue at a rapid pace, consumers could cut back further on spending and prolong the recession.

New applications for jobless benefits have declined since reaching 674,000 in late March, the highest level in the current recession. But claims remain elevated. Weekly initial claims were 375,000 a year ago.

The four-week average of claims, which smooths out volatility, rose to 630,500, after falling for four straight weeks. Still, the average remains

nearly 30,000 below its high in early April, a drop that economists at Goldman Sachs and JPMorgan Chase & Co. have said indicates that the economic downturn is bottoming out.

There have been other signs the pace of job cuts is moderating, though still brutal. Employers eliminated 539,000 jobs in April, the fewest in six months and below the average of 700,000 in the first quarter of this year.

Still, more than 5.7 million jobs have been lost since the recession began in December 2007.

More job cuts have been announced recently. Steel giant ArcelorMittal said Wednesday it will eliminate nearly 1,000 positions at an Indiana steel plant in July, while DuPont said last week it will cut 2,000 jobs.

Among the states, Illinois reported the largest increase in initial claims, which it attributed to layoffs in the construction and manufacturing industries.

New York reported the largest drop in claims of 13,386, which it said was due to fewer layoffs in the transportation and service industries.

<http://finance.yahoo.com/news/New-jobless-rise-more-than-apf-15242000.html/print>