12 reasons unemployment is going to (at least) 12 percent

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Gluskin Sheff economist David Rosenberg, formerly of Merrill Lynch, thinks the unemployment rate is going to at least 12 percent, maybe even 13 percent. Optimists, Rosenberg explains, underestimate the incredible damage done to the labor market during this downturn. And even before this downturn, the economy was not generating jobs in huge numbers. If he is right, all political bets are off. I think the Democrats could lose the House and effective control of the Senate. I think you would also be talking about the rise of third party and perhaps a challenger to Obama in 2012.

So here is what I gleaned from Rosenberg's latest report (bold is mine):

1. For the first time in at least six decades, private sector employment is negative on a 10-year basis (first turned negative in August). Hence, the changes are not merely cyclical or short-term in nature. ***Many of the jobs created between the 2001 and 2008 recessions were related either directly or indirectly to the parabolic extension of credit.***

2. During this two-year recession, employment has declined a record 8 million. Even in percent terms, this is a record in the post-WWII experience.

3. Looking at the split, there were 11 million full-time jobs lost (usually we see three million in a garden-variety recession), of which three million were shifted into part-time work.

4.There are now a record 9.3 million Americans working part-time because they have no choice. In past recessions, that number rarely got much above six million.

5. The workweek was sliced this cycle from 33.8 hours to a record low 33.0 hours — the labour input equivalent is another 2.4 million jobs lost. ***So when you count in hours, it's as if we lost over 10 million jobs this cycle.*** *Remarkable.*

6. The number of permanent job losses this cycle (unemployed but not for temporary purposes) increased by a record 6.2 million. In fact, well over half of the total unemployment pool of 15.7 million was generated just in this past recession alone. ***A record 5.6 million people have been unemployed for at least six months (this number rarely gets above two million in a normal downturn) which is nearly a 36% share of the jobless ranks (again, this rarely gets above 20%).*** *Both the median (18.7 weeks) and average (26.9 weeks) duration of unemployment have risen to all-time highs.*

7. ***The longer it takes for these folks to find employment (and now they can go on the government benefit list for up to two years) the more difficult it is going to be to retrain them in the future when labour demand does begin to pick up.***

8. Not only that, but we have a youth unemployment rate now approaching a record 20%. ***Again, this is going to prove to be very problematic for employers in the future who are going to be looking for skills and experience when the boomers finally do begin to retire.***

9. The gap between the U6 and the official U3 rate is at a record 7.3 percentage points. Normally this spread is between 3-4 percentage points and ultimately we will see a reversion to the mean, to some unhappy middle where the U6 may be closer to 15.0-16.0% and the posted jobless rate closer to 12%. ***This will undoubtedly be a major political issue, especially in the context of a mid-term elections and the GOP starting to gain some electoral ground.***

10. But when we do start to see the economic clouds part in a more decisive fashion, what are employers likely to do first? Well, naturally they will begin to boost the workweek and just getting back to pre-recession levels would be the same as hiring more than two million people. Then there are the record number of people who got furloughed into part-time work and again, they total over nine million, and these folks are not counted as unemployed even if they are working considerably fewer days than they were before the credit crunch began.

11. So the business sector has a vast pool of resources to draw from before they start tapping into the ranks of the unemployed or the typical 100,000-125,000 new entrants into the labour force when the economy turns the corner. ***Hence the unemployment rate is going to very likely be making new highs long after the recession is over — perhaps even years.***

12. After all, the recession ended in November 2001 with an unemployment rate at 5.5% and yet the unemployment rate did not peak until June 2003, at 6.3%. The recession ended in March 1991 when the jobless rate was 6.8% and it did not peak until June 1992, at 7.8%. ***In both cases, the unemployment rate peaked well more than a year after the recession technically ended.*** *The 2001 cycle was a tech capital stock deflation; the 1991 cycle was the Savings & Loan debacle; this past cycle was an asset deflation and credit collapse of epic proportions. And economists think that the unemployment rate is in the process of cresting now? Just remember it is the same consensus community that predicted at the beginning of 2008 that the jobless rate would peak out below 6% this cycle.*

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