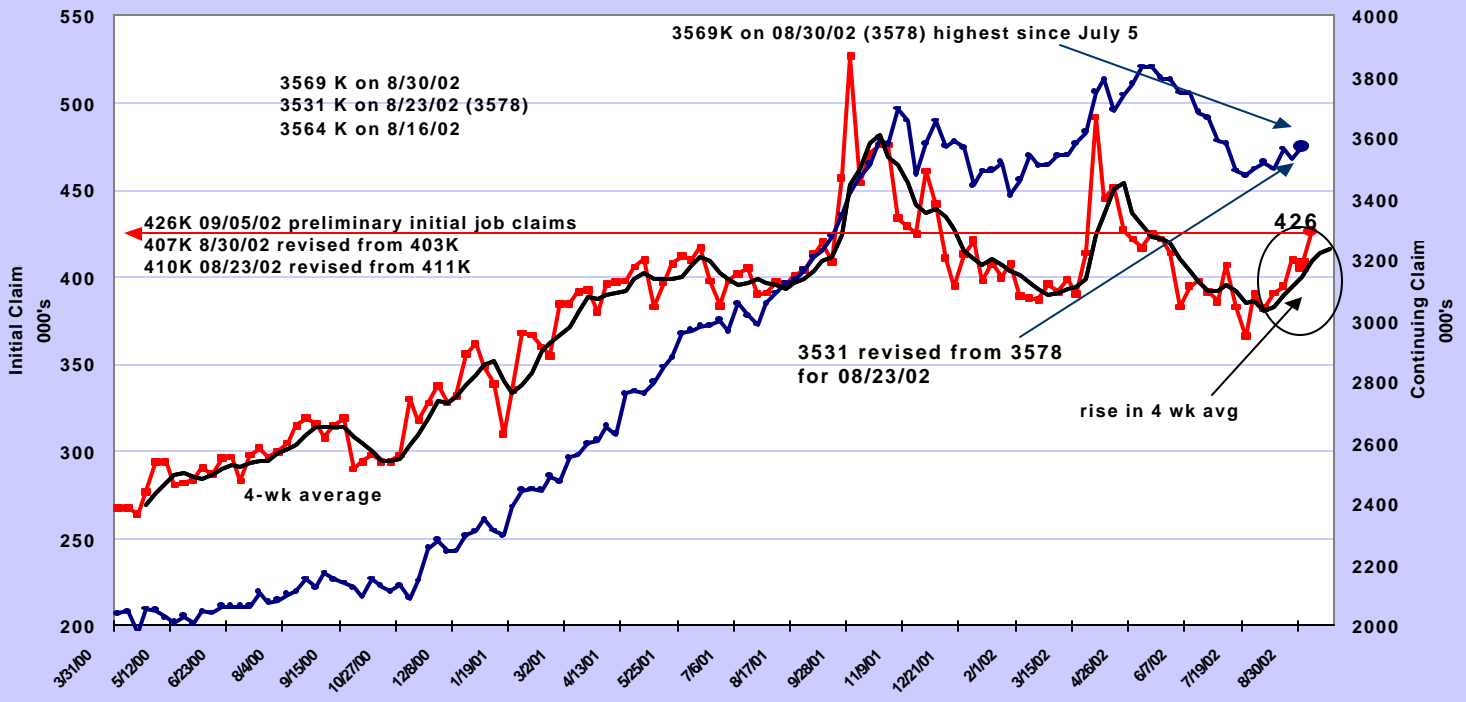




**It doesn't get easier: initial job claims rise to 426,000**

With the caveat that weekly data are always treacherous ground for projections, a pattern of increased job

**Initial and Continuing Unemployment Claims**



weakness is emerging. The latest week's figures show 426,000 initial unemployment claims and the continuing claims data rose to 3,569,000. The pattern of employment weakness is consistent with the qualitative reports contained in the Beige Book which show a mixed pattern of industrial weakness. Focusing on the trends may give a better picture of what is now occurring. The 4-week trend of initial claims clearly points upward with the former downward trend breaking down in early August. The "low" on the 4-week series was reached on 08/02/02 at 381,000, having declined from an interim high of 454,000 on April 2.

In some sense, the job market is taking a double dip, notwithstanding the Headline Number decline of the formal unemployment rate. The issue is how extensive this dip will be and whether the dip makes it clear that the recovery has irretrievably failed. We think not, but our concerns now have to be directed to the University of Michigan confidence survey that comes tomorrow. Again, the confidence survey may signal more market weakness, although it may not tell us much about consumption behavior going forward.

A more interesting conjecture, given the Beige Book's rather somber survey and the behavior of claims, is whether we will see some further evidence of deterioration in Industrial Production. An absolute decline in industrial production would send some additional warnings to the market. It would also revive concerns that the Fed must still do more. Greenspan's testimony this morning is likely to discourage that view, but a pattern of datapoints will create some quacking from the Hill and in certain quarters on Wall Street. Analysts





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