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Jobless claims fall but labor market still soft

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By Alister Bull

WASHINGTON (Reuters) - The number of U.S. workers filing new claims for jobless benefits fell 5,000 last week, government data on Thursday showed, but claims remained near levels indicating a sluggish labor market amid a cooler economy.

Prices for U.S. Treasury bonds fell after the data and the dollar extended gains against the euro and yen as investors took the news as a sign that the labor market was not deteriorating as rapidly as some had feared it could.

Initial claims for state unemployment insurance benefits declined to a seasonally adjusted 381,000 in the week ended June 14, from a revised 386,000 the prior week, the Labor Department said.

"The data suggest that the labor sector continues on a pace of modest deterioration with the unemployment (rate) remaining elevated," said Joseph Brusuelas, chief economist at Merk Investments.

Investors suspect the Federal Reserve may respond to signals the labor market is mending by leaning toward higher interest rates, while evidence that employment is still soft could convince it to keep key rates on hold at 2 percent.

Analysts polled by Reuters had forecast 375,000 new claims versus a previously reported count of 384,000 the week before. A Labor Department official said there were no special factors influencing the report.

Weekly claims above the 400,000 level have been associated with U.S. recessions in the past. Some economists think that the economy has already past that point.

"This is recession territory, at least if the experience of 2001 is a guide," said Ian Shepherdson, chief U.S. economist at High Frequency Economics.

"The eight-week moving average of claims in early March 2001, the first month of the recession according to the NBER (National Bureau of Economic Research), was just 362,000," he said.

The four-week moving average of new jobless claims, a better gauge of underlying labor trends because it irons out week-to-week volatility, rose to 375,250 from 372,000 the week before to the highest reading since April.

This measure has risen as the U.S. housing slump has chilled growth and crimped hiring this year, and is now back to levels seen in the aftermath of Hurricane Katrina in 2005.

"The slow and steady creep of the four-week moving average inside the claims series does not imply at this point that the claims series will see a positive correction in the aftermath of the settlement of the American Axel strike," said Brusuelas.

The labor dispute had idled thousands of car workers for weeks until it was

resolved in May, and economists had thought that the end of the strike would ease claims.

The number of people remaining on the benefits roll after drawing an initial week of aid fell 76,000 to a less-than-forecast 3.06 million in the week ended June 7, the most recent week for which these figures were available.

Analysts estimated so-called continued claims would be 3.14 million. It was the eighth straight week that these claims were above 3 million, in a sign that the slowing economy is indeed making it harder for U.S. workers to find jobs.

(Reporting by Alister Bull, editing by Andrea Ricci)

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