



The threat of the job-is-worth-less recovery

Yes, jobs are finally being created, but U.S. workers will find their incomes increasingly pressured by lower wages, higher benefit fees and global competition. That's good for your boss but could hurt the markets.

By Jim Jubak

Okay, it's not a jobless recovery. It's the job-is-worth-less recovery.

The economic recovery we've anticipated for so long is here. Forecasters think the data will show the economy grew by 6.1% -- some say as much as 6.5% -- in the three months that ended Sept. 30.

And the jobless recovery doesn't look jobless after all. Payrolls grew by 57,000 in September, and the number of people taking temporary jobs, an indicator of future job growth, climbed by 33,000.

Initial claims for unemployment dropped another 4,000 to 386,000 in the latest report. That's below the 400,000 level that many economists believe marks the difference between times of growing employment (such as now) and times of growing unemployment (as in much of 2003).

But despite all that, Americans are not optimistic about the future. October's 89.4 reading on the University of Michigan poll of Consumer Sentiment, for example, was just 15% higher than the 10-year low hit in March 2003. Remember March? It wasn't exactly the most optimistic of times. The war in Iraq was still going on when the survey was taken. Polls taken in the last month show a majority think the country is headed in the wrong direction.

The numbers about the economy aren't real
Why so little joy in Mudville? Because the average U.S. citizen who works for a living knows that this economy is still crummy despite the numbers. Because we know that the new jobs that are being created pay less than the jobs that have been destroyed, that they come with fewer benefits and that they promise less security.

In September, 138 million of us were employed, and 9 million -- or about 6.1% -- were officially unemployed. That unemployed number doesn't include the 5 million people in the United States who work at part time jobs and say they'd like full time jobs if they could find them.

In September, 57,000 more people received paychecks than the month before. The biggest job loss that month came in manufacturing, where 29,000 people lost their spots on the payroll. Yep, the manufacturing sector continued to lose jobs even as the economy as a whole added jobs.

And the biggest gains in jobs came in business and professional services (66,000 workers

added to payrolls in this kind of work), health care and social assistance (15,000), and retail (15,000).

Manufacturing jobs in the United States pay an average of \$650 a week or about \$34,000 a year, according to outplacement firm Challenger, Gray & Christmas. Retail jobs, in contrast, pay an average of \$373 a week, or about \$19,000 a year. Even as the recovery starts to pick up speed, the U.S. economy is shedding \$34,000-a-year jobs and replacing them with \$19,000-a-year jobs.

Your paycheck is getting nickel-and-dimed

That's not the only way in which the jobs being created by this recovery are worth less than the jobs being destroyed in the recovery, or less than those that existed before the downturn even started. Workers taking new jobs and workers hanging on to existing jobs are paying more out of their paychecks.

Your job is now like the "free" checking accounting offered by some banks. Having an account is free, but you can pay through the nose for blank checks, for bouncing a check, to get a peek at a canceled check, for falling below a minimum balance, and even for using a teller.

In the same way, many paychecks are now worth less because of fees that you have to pay that your employer used to cover.

For example, 56% of U.S. employers raised healthcare premiums, deductibles or co-pays in the last year, according to Watson Wyatt Worldwide. And 18% now charge an extra \$100 a year for family coverage if the employee's working spouse declines coverage from his or her own employer.

Sometimes, the squeeze is even more direct. In the last 12 months, 12% of U.S. employers simply reduced benefits. Another 6% plan to do so next year.

It's not like U.S. companies are raising salaries to compensate for these benefit reductions or to make up for the costs they're passing along to employees. Raises were below 4% in the past year, the third year in a row they've been below 4% and the lowest rate in 30 years, according to Hewitt Associates.

Watson Wyatt found that 45% of U.S. employers reduced their budgets for salary increases in the past year, and 16% eliminated or severely reduced their budgets for bonuses. Next year looks not better -- but less worse. Only 12% of U.S. employers are planning to further reduce the budget for salary increases and only 5% will slash the bonus budget again. (To read more on the survey, click on the link at left under Related Sites.)

Now, some of this is because employers themselves face rising costs for supplying these benefits and, with global competition being what it is, they have to pass those costs along to someone. And they certainly can't pass them along to consumers at this time.

But many companies are using the slow economy and the scarcity of good jobs to pass more than the increases in their costs along to employees. According to Hewitt Associates, the cost of health insurance climbed 15% nationally in 2003 and will jump another 13% in 2004. But employees are looking at a 23% increase in what they pay for health insurance in 2004. That will be the third straight year with an increase of 20% or more for employees.

I'd like to believe this kind of squeeze on workers' pay checks is only temporary, that with the return of better economic times the pendulum will swing back and workers will recoup all they've lost in benefits and pay and a bit more.

The powerful push to move U.S. jobs to low-wage markets

But I just don't see that happening. Workers in the job-is-worth-less recovery are going to feel so insecure in their jobs that it will be tough to recover the ground that they've lost so far.

First, the "recovered" economy isn't going to look that different from the economy during the downturn. Thanks to unrelenting global competition in everything from chips to call centers, companies will be forced to follow the most recent rounds of cost-cutting, restructuring, and job reductions with other rounds of cost-cutting, restructuring and job reductions. That painful process looks like it will be a permanent part of life for employers and employees for the foreseeable future.

For example, **Sony**

([news](#)), has just announced that it will restructure its manufacturing processes and procurement policies to reduce the number of parts it uses in its products to 100,000 by 2005 from the current 840,000 parts today. That will ripple down Sony's supply chain. The company estimates that the restructuring will reduce the number of parts suppliers to 1,000 from 4,700. This effort will occupy the company until the end of 2005.

Sony's effort to cut the number of parts it uses by roughly 90% follows an announcement from **Toshiba** ([news](#))

that it planned to cut the number of its parts by 20%.

Second, the increasingly global labor market will keep the pressure on U.S. wages and benefits. This is especially true because the global labor market now provides competition for the kind of highly trained technical jobs that have been largely impossible to ship off-shore until now.

For example, the starting salary for an engineer in India ranges between \$7,800 and \$12,000 a year. In the United States, the starting salary for a comparable engineer is about \$43,000. And India is graduating about 300,000 new engineers a year.

But neither India nor any other single country is the real competitive threat to that U.S. worker. Rather, it's the entire ongoing process of economic globalization that is sweeping across one country after another. China's programmers and information technology workers undercut the costs of U.S. workers and were themselves then undercut by Russian workers who were then undercut by Indian professionals. An information professional in China earns an average of \$8,900 a year, in Russia \$6,000 and in India \$5,800.

And of course India's workers face lower-cost competition from places such as the Philippines and Viet Nam.

Less retirement capital will flow into the markets

What does this job-is-worth-less economy mean to investing? Let me quickly speculate. It will reduce the amount of U.S. retirement and savings capital available to the U.S. markets. In the short run, it's likely that workers who find their budgets stretched by this

environment will save less in order to keep current spending patterns intact. That's not desirable and not sustainable in the long run. But it is the normal reaction to a squeeze like this.

It will change the risk that U.S. workers are willing to take with their investment money with three possible reactions:

- The likely reaction from most workers facing the likelihood that they'll have less capital to replace losses will be to seek investments with less risk.
- Some smaller percentage may actually take on more risk, essentially buying a lottery ticket and gambling since achieving their goals by any other means won't seem possible. One side effect of this double-or-nothing mentality is likely to be a rise in the number of financial frauds that promise hard-pressed investors tantalizing returns.
- And third, we're likely to see a revival of international investing as investors seek to find companies able to take advantage of the new global competition no matter where they operate. I hope that that the capital markets in the rest of the world will be able to develop quickly enough to deliver a reasonably honest deal to U.S.-based investors. I fear that's unlikely.

These investment choices aren't the only important decisions we all need to make about the recovery. The future isn't set in stone. The economy I've sketched can be either better or worse depending on what we and our politicians do in the next few years.

What should be done? I'll devote a column in the next week or two to your solutions -- throwing in my own two cents, of course. So please send me your suggestions -- with the understanding that they are for possible publication. I'll put the best and most interesting into that column and, if I can engineer it, include a poll that lets readers vote on these solutions.

Please send me your ideas on fixing the job-is-worth-less recovery by using the e-mail link at the bottom of this column.

New developments on past columns

On October 16, **Freeport-McMoRan Copper & Gold** ([news](#)), the world's low-cost copper producer, announced third-quarter earnings of 52 cents a share. This excluded special charges for a change in accounting, early retirement of debt and the repurchase of preferred shares. Including these charges net income came to 33 cents a share. The consensus Wall Street estimate for earnings excluding charges was 52 cents, according to First Call. Revenue for the quarter rose to \$670 million from \$540 million in the third quarter of 2002. Good news in the quarter included production that was ahead of projections. In the quarter, Freeport-McMoRan sold 345 million pounds of copper, about 25 million pounds above projections, and 763,500 ounces of gold, about 120,000 ounces above projections -- and a continued upward movement in the price of copper. J.P. Morgan Securities projects that copper prices will climb to 92 cents a pound in 2004, an 8% increase from its prior estimate of 85 cents, and to \$1 a pound in 2005, a 9% increase from the prior estimate of 92 cents. Freeport's low costs (thanks to its Grasberg mine in Indonesia) mean that every penny increase in the price of copper adds about 5 cents a share to the company's earnings. At current prices, investors are getting Freeport-McMoRan's gold operations for close to nothing. Pretty sweet, considering that the company has 44 million ounces of proven gold reserves on its books. As of October 24, I'm raising my September 2004 price target to \$45 a share for Freeport-McMoRan. (Full disclosure: I own shares of Freeport-McMoRan Copper & Gold.)

E-mail Jim Jubak at jjmail@microsoft.com.

At the time of publication, Jim Jubak owned or controlled positions in the following equities mentioned in this column: Freeport-McMoran Copper & Gold. He does not own short positions in any stock mentioned in this column.

Financial Markets	War	Precious Metals	The Federal Reserve	Energy	Survival
-----------------------------------	---------------------	---------------------------------	-------------------------------------	------------------------	--------------------------