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Unemployment climbs to 5-year high of 6.1 percent

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WASHINGTON—The nation's unemployment rate bolted above the psychologically important 6 percent level last month for the first time in five years—and it's likely to go even higher in the months ahead, possibly throwing the economy into a tailspin as Americans pick a new president.

A blizzard of pink slips propelled the jobless rate from 5.7 percent in July to 6.1 percent in August, the Labor Department reported Friday. Such a sharp increase is usually a strong recession warning, and it dashed investors' hopes for a late-year recovery.

Worried about the economy and their own business prospects, employers cut payrolls by 84,000 in August, marking the eighth straight month of losses.

So far this year, a staggering 605,000 jobs have vanished—slightly less than the population of Alaska. The economy needs to generate more than 100,000 new jobs a month for employment to remain stable.

Richard Yamarone, economist at Argus Research, feared that the jobless rate would cause consumers and businesses to "move from a moderately concerned stage to outright fear" and reduce their

spending even more.

A toxic trio of housing, credit and financial problems has badly shaken the economy, and the crisis shows no signs of letting up. It's the public's top worry, and many experts believe the situation will get worse before it gets better.

The unemployment increase means many companies will feel pressure to reduce their business investments—either in capital projects or hiring—for the rest of the year.

"Mix business caution with consumer exhaustion and you have a recipe for a real recession," said Terry Connelly, dean of Golden Gate University's Ageo School of Business.

At an unemployment center in St. Louis, Kimbel Adams could recite the exact date he was let go from his job as a hospital security guard—April 8. Since then, he has applied for 10 or 15 jobs, with little luck.

"Most of the jobs you can get, it's hard to make a living off. I could always work at a fast food restaurant and struggle to pay the bills," Adams said.

Adams, 27, said unemployment checks and irregular gigs as a nightclub bouncer help make ends meet. But eating at restaurants is a thing of the past, and Adams continues to drive a 1991 Buick in spite of the constant maintenance problems.

The number of unemployed rose to 9.4 million in August, compared with 7.1 million a year ago. Economists predict more job losses ahead, pushing the unemployment rate to 7 percent by fall of 2009, according to some projections.

Against this backdrop, a growing number of

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analysts predict the economy will jolt into reverse in the final three months of this year and possibly in the first three months of next year, meeting a classic definition of a recession.

The economy shrank late last year and barely budged at the start of this year. Growth picked up in the spring, thanks to brisk exports and the government's tax rebates, which energized shoppers at home. But that rebound wasn't expected to last.

Slower growth overseas will probably cause exports to fall off just as Americans are cutting their spending and the benefits of the rebates disappear.

Job losses were widespread at factories—especially housing-related manufacturers and automakers—as well as construction companies, retailers, mortgage brokers, real-estate firms, hotels and motels, and temporary-help firms, which are looked at as a barometer of demand for future hiring.

Those losses swamped employment gains in government, education, health care and elsewhere.

After the last recession, in 2001, the unemployment rate rose as high as 6.3 percent in June 2003.

By historical standards, the country is far from the employment carnage seen more than two decades ago, when unemployment climbed above 10 percent during President Reagan's first term in the early 1980s.

Still, some groups are being hit harder than others. The jobless rate for blacks jumped to 10.6 percent last month, the highest since late 2005. And, the unemployment rate for Hispanics rose to 8 percent, a five-year high.

The grim report prompted Capitol Hill Democrats to renew their push for a second stimulus package.

The Bush administration and other Republicans have been cool to the idea.

Presidential candidates Barack Obama and John McCain seized on the job figures to attack each other's proposals to turn the economy around.

"The working men and women I meet every day are working harder for less," Obama said. He advocates tax cuts for working families and investment in road, bridges and other projects to lift the economy.

McCain vowed to "fight for those that lost their jobs, savings and real-estate investments." He said tax reductions for people and businesses, job training and measures to promote trade will help ease the economic woes.

The latest employment snapshot was worse than economists were forecasting. They were expecting payrolls to drop by around 75,000 in August and the jobless rate to tick up a notch, to 5.8 percent.

The White House was disappointed, too.

"There is no question that the labor market is not as strong as we'd like," said press secretary Dana Perino. "We want to see the economy return to job growth, and we understand that this is a difficult time for many Americans. We want everyone who wants to work to be able to find a job."

Wages went up modestly last month, but prices have been rising faster. Average hourly earning rose to \$18.14, up 3.6 percent from last year. High food and fuel costs mean paychecks aren't stretching as far, though.

A separate report showed a record 9.2 percent of American homeowners with a mortgage were either behind on their payments or in foreclosure at the end of June, according to the Mortgage Bankers

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Association.

The Fed, which is struggling to curb inflation and improve growth, is expected to leave a key interest rate alone at 2 percent when it meets Sept. 16.

At its last two meetings, the Fed didn't change the rate. Before that, though, it had aggressively cut rates to shore up the economy. Many thought the Fed might start to raise rates next year to fend off inflation. But now with employment deteriorating, some wonder whether the Fed might be forced to lower rates again.

Associated Press Business Writer Christopher Leonard in St. Louis contributed to this report.

(This version CORRECTS that prediction of 7 percent unemployment is for fall 2009, not this fall.)

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