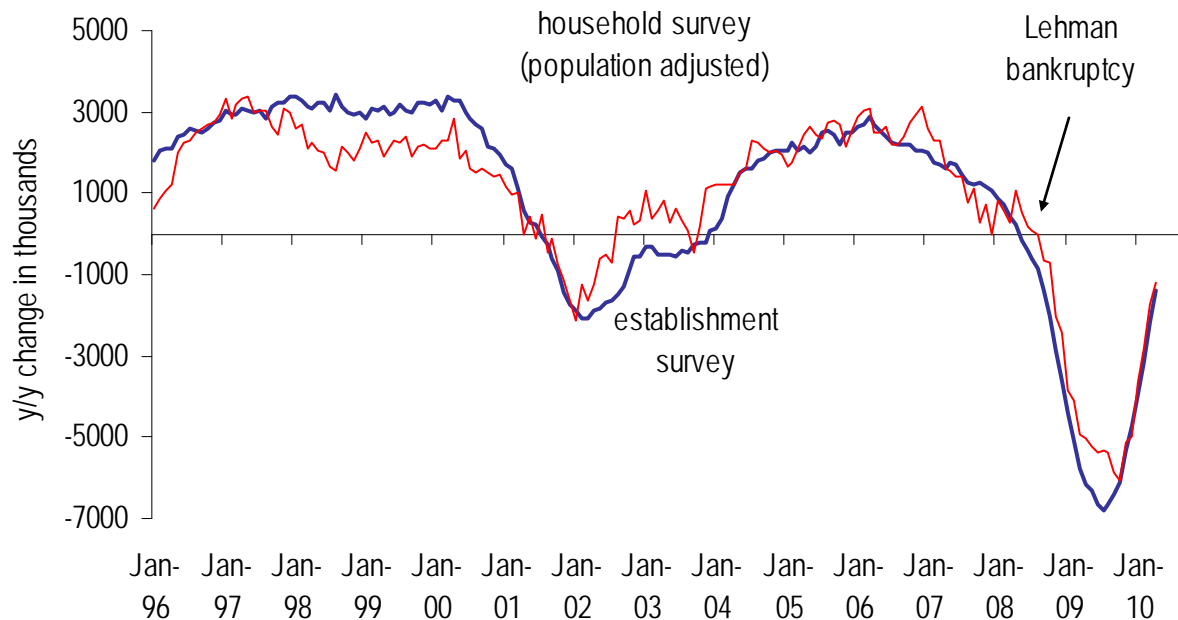


May 7, 2010

Jobs Grow, but Unemployment Rises to 9.9%, Underemployment at 17.1%

Friday's employment data showed 290,000 net job gains in April in the establishment survey. The upward revisions to February and March added another 121,000, bringing the total adds to 411,000. The household survey gained 550,000.

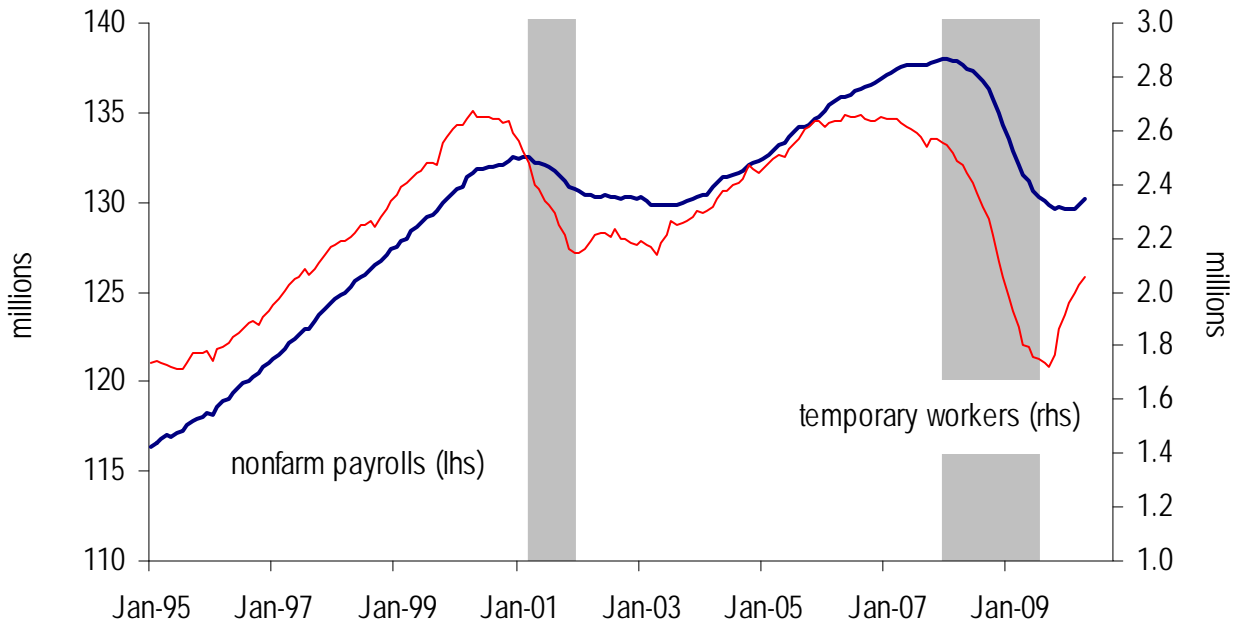
Annual Changes in Employment (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

- Census hiring was less than expected at 66,000 (pointing to stronger government hiring in May and June), while private sector job gains were better than expected at 231,000.
- **The bottom line is that both the establishment and household surveys are showing solid job gains.** We expect strong payroll gains to continue into the summer.
- Temporary employment -- a leading indicator of broader employment gains -- continues to be a bright note in the labor report, adding 26,200 jobs in April. Temporary employment has risen 330,300 from the September low.

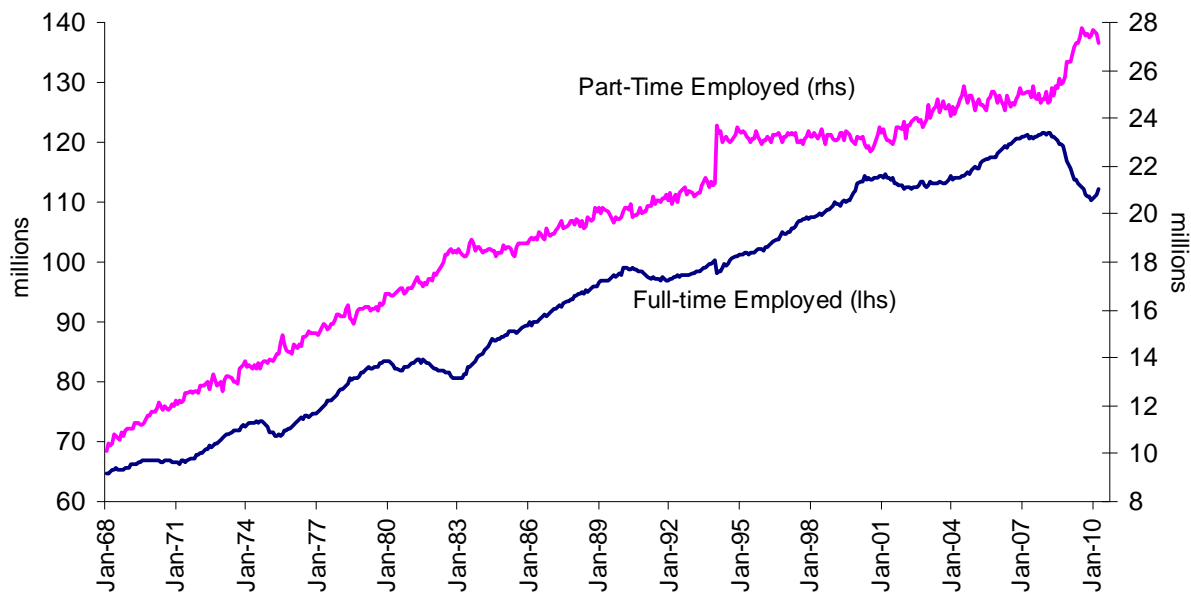
Temporary Workers Rising (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

- Per the household survey, the number of full-time workers rose a strong 835,000 in April while part-time workers fell 382,000. This conversion of part-time workers to full-time has positive implications for the sustainability of the expansion and for consumption.

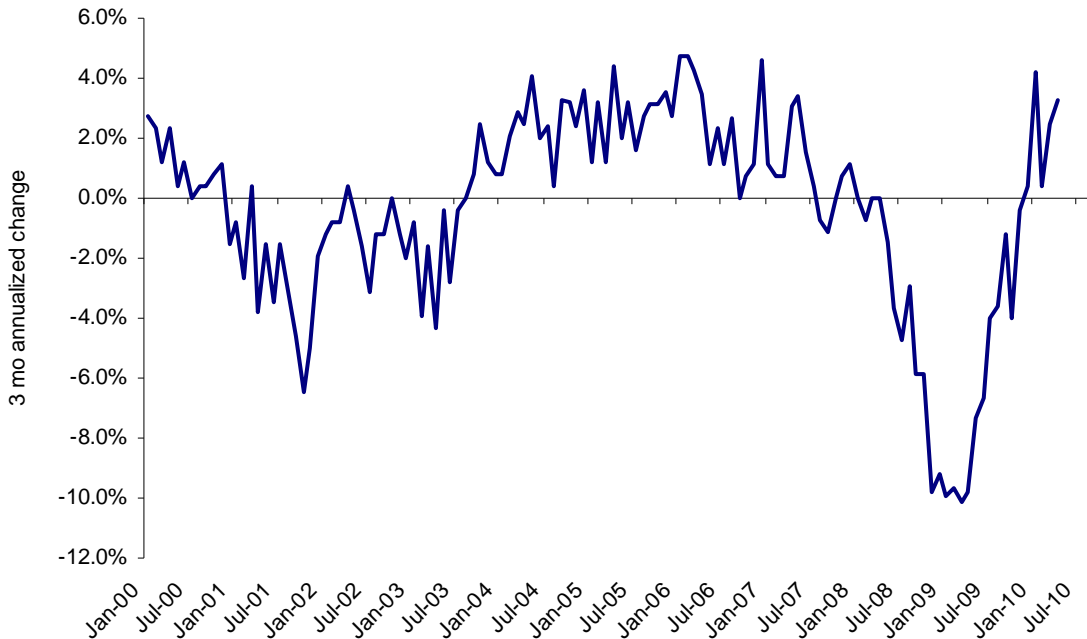
Part-time and Full Time Employed (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

- Aggregate weekly hours of production and nonsupervisory workers grew 3.3% in the three-months through April (annualized rate, the product of weekly hours and employment). We assume continued growth in hours in May and June and are expecting second quarter real GDP growth of 4.5%.

Aggregate Weekly Hours index (last obs. April 2010)

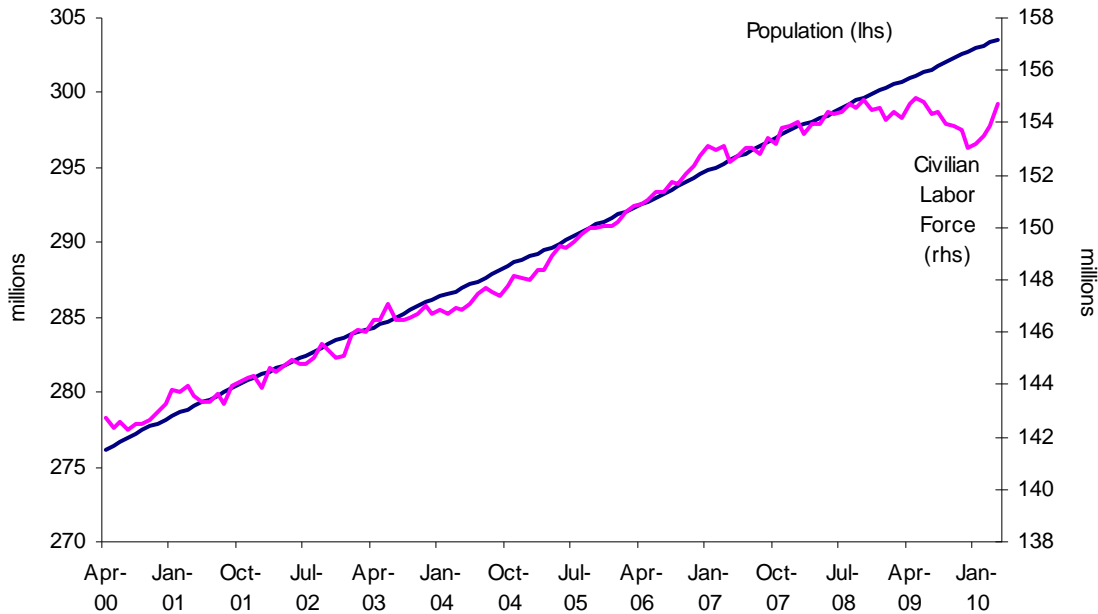


Source: Bureau of Labor Statistics; Encima Global

There are several caveats to the positive labor developments:

- The unemployment rate rose to 9.9% in April from 9.7% in March, **The number of unemployed workers rose 255,000 to 15.26 million** due to an increase in the civilian labor force (by 805,000) that exceeded the increase in household employment (550,000). We expect this general trend to continue, with gains in both jobs and the labor force, leaving the unemployment rate relatively high. In effect, there's an overhang of workers waiting for better labor conditions to reenter the labor force.

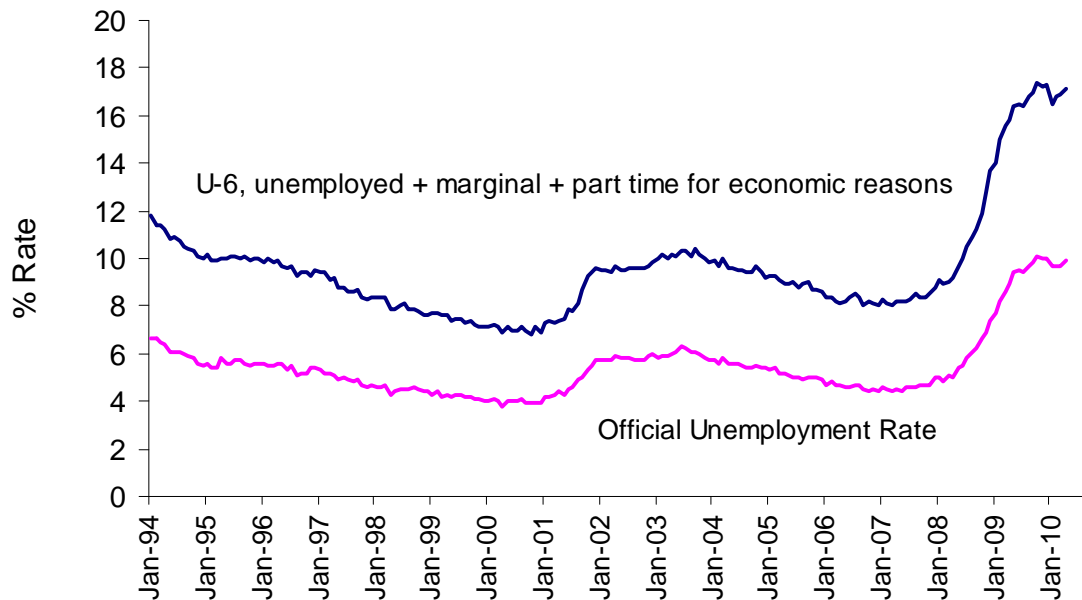
Population and the Civilian Labor Force (last obs. April 2010)



Source: Census Bureau; Bureau of Labor Statistics; Encima Global

- The official unemployment rate rose to 9.9% in April from 9.7% in March. U-6 underemployment rose to 17.1% in April from 16.9% in March. The unemployment rates rose because the civilian labor force rose by 805,000 to 154.7 million.

Unemployment Rate and Underemployment Rate (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

- The average duration of unemployment has risen to a new high to 33 weeks in April.

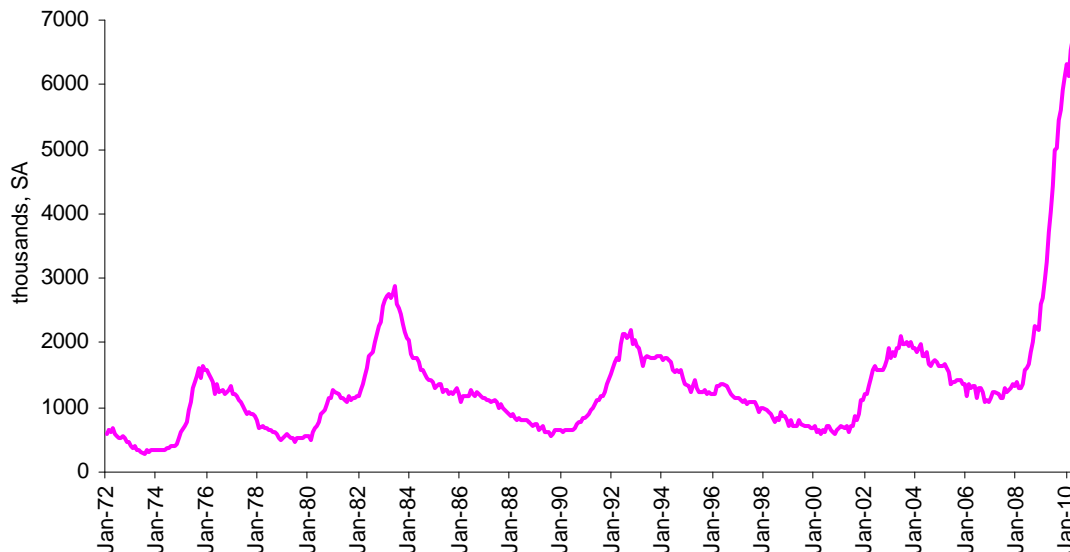
Duration of Unemployment (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

- The number of unemployed for more than 27 weeks has rocketed up to 6.7 million

Number of People Unemployed for more than 27 weeks (last obs. April 2010)

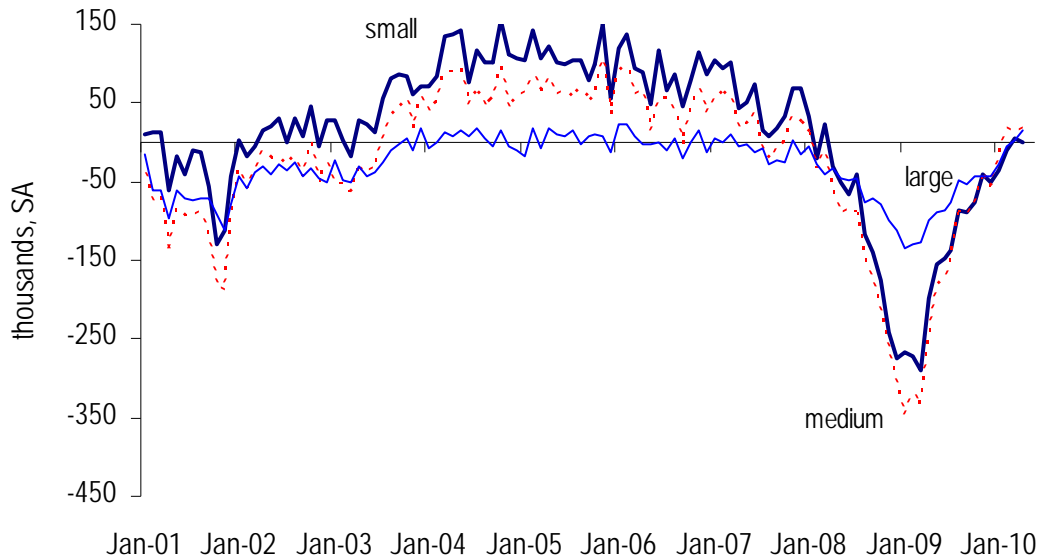


Source: Bureau of Labor Statistics; Encima Global

- Much of the job growth is coming from big companies, not the small businesses that traditionally power a sustainable expansion. This helps explain the stubbornly high unemployment rate. According to Wednesday's ADP employment data, 32,000 private

sector jobs were created in April, of which small businesses produced just 1,000, while medium-sized businesses produced 17,000 and large businesses produced 14,000.

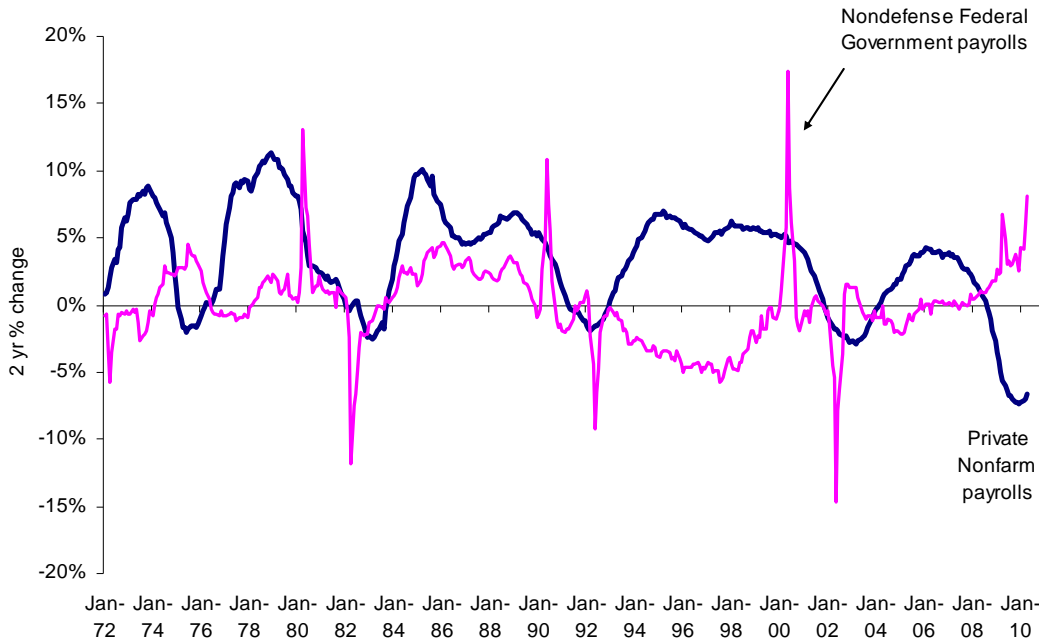
ADP Employment change by Size (last obs. April 2010)



Source: ADP; Encima Global

- Near-zero interest rates are holding down government borrowing costs and adding to profits for bigger companies and banks. However, while Washington has verbally encouraged banks to lend to small businesses (including Fed Chairman Bernanke's testimony yesterday), there hasn't been much progress on the regulatory/accounting obstacles to small-business lending. We think the near-zero Fed funds rate causes a rationing effect on small businesses that seems likely to continue into the foreseeable future, guiding capital toward the federal government, big companies and banks rather than small businesses and savers (see David's December 4 WSJ article, Near-Zero Rates Are Hurting the Economy.)
- The strength of the small business recovery will be a key variable in reducing unemployment. Rapid growth in government spending causes businesses to invest and hire less because they expect higher tax rates. Over time, the share of employment in the economy is shifting toward the government as it expands its role. While some of the shift is cyclical, some is structural, with negative implications for medium-term economic growth.
- Over the last two years, the federal government added 222,000 jobs (8.1%), while private sector employment fell by 7.668 million (6.7%).

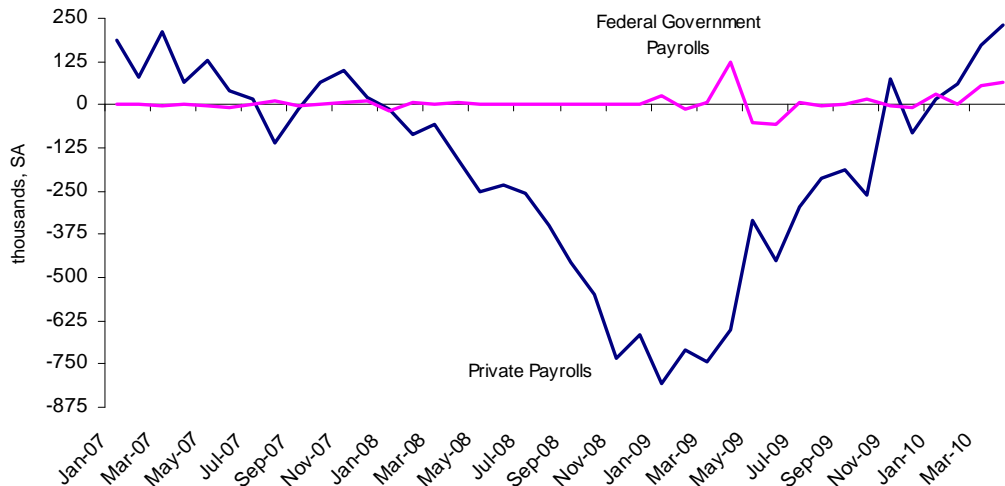
Federal Gov't and Private Payrolls 2 yr percent change (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

- Over the one year period, the federal government has been adding an average 5,000 jobs per month even as the private sector was losing jobs an average 106,000 per month. The federal government added 65,000 in April, up from the 54,000 in March. We expect federal hiring for the census to continue to add in coming months.

Federal Gov't and Private Payrolls m/m (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

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