

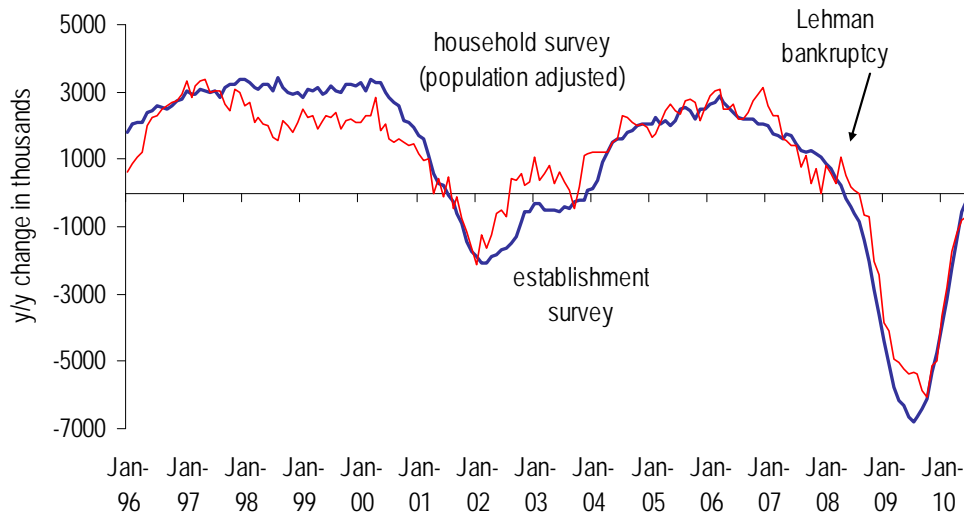
September 3, 2010

Jobs Report Mixed, Most Job Gains Part-Time

There has been a deep soft patch in the economy due to Washington policies, the European debt crisis and the Gulf oil spill. Today's employment report showed a rise in unemployment to 9.6%; and a decline in nonfarm payrolls of 54,000 in August, with above-expectation gains of 67,000 for private sector employment. There was also a 123,000 upward revision to the previous months' figures.

- We continue to closely monitor the weekly initial claims data, which came in at 472,000, for signs of improvement in private sector job growth. We expect better job growth, helped by corporate profits and global growth, but note the burden from Washington policy risk related to taxes, debt and regulation.
- Total job growth in the establishment survey was a loss of 54,000, with census worker layoffs subtracting 114,000 jobs and non-census federal government adding 3,000. Private sector payroll growth was stronger-than-expected, showing a 67,000 gain versus the 40,000 consensus expectation. After three months of declines from May to July, the household survey increased last month by 290,000.

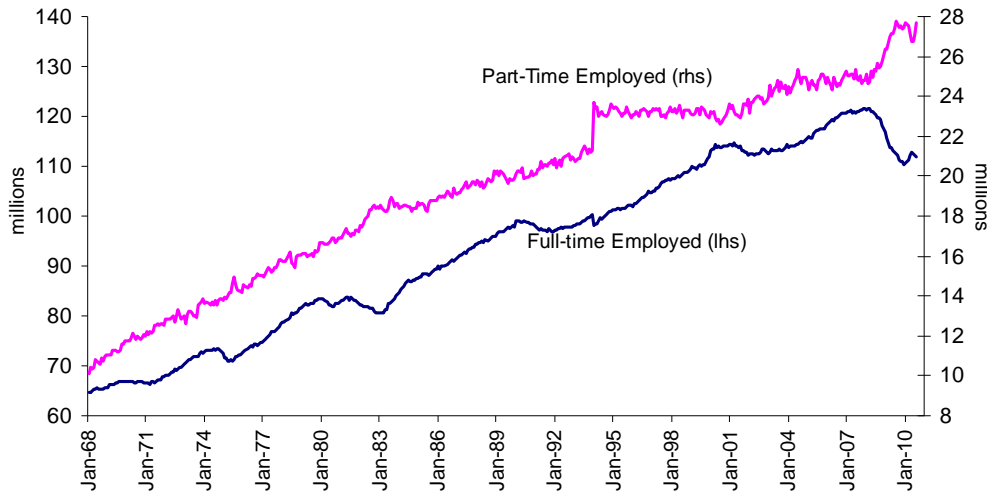
Annual Changes in Employment (last obs. August 2010)



Source: Bureau of Labor Statistics; Encima Global

Reflecting the uncertainty regarding the business climate, the household survey showed the number of part-time workers rose 623,000, nearing the peak levels seen in 2009, while full-time workers fell 254,000 in August.

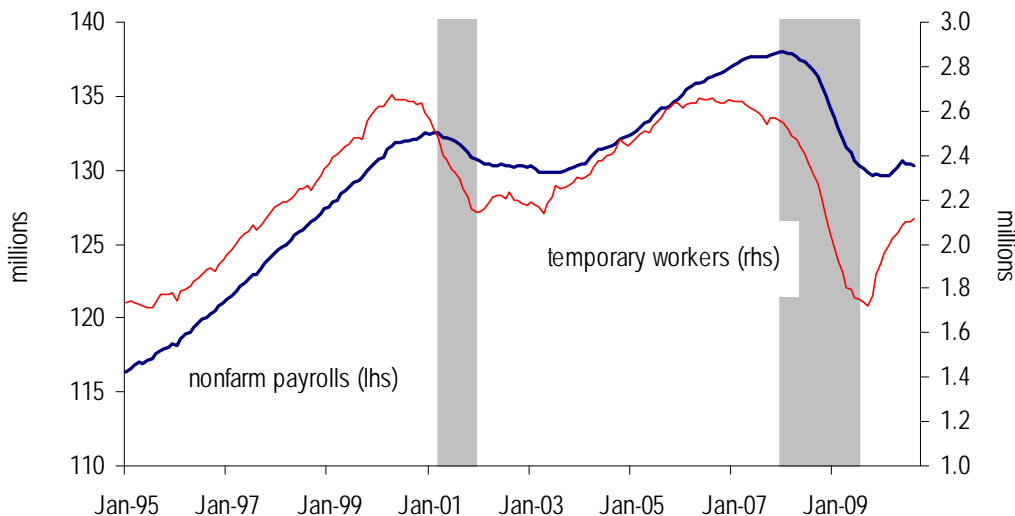
Part-time and Full Time Employed (last obs. August 2010)



Source: Bureau of Labor Statistics; Encima Global

- Temporary help, a leading indicator of broader employment gains, gained 17,000 jobs in August, continuing the trend since September 2009. We've seen a total of 392,200 gains in temporary help since then.

Temporary Workers Rising (last obs. August 2010)

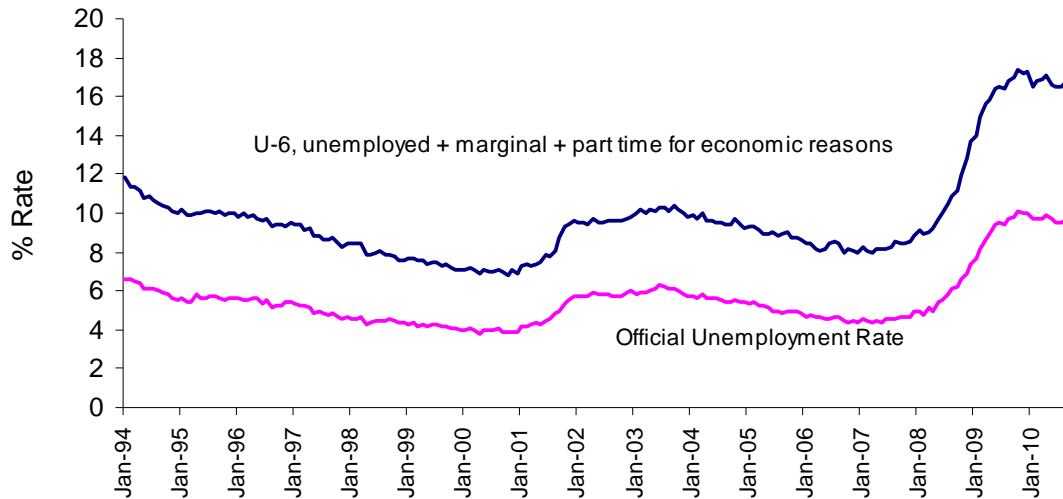


Source: Bureau of Labor Statistics; Encima Global

There is a clear trend favoring larger companies. The ADP data showed small and medium sized companies shed 11,000 jobs in August, while larger companies added jobs. The ISM Manufacturing employment survey, which we think also favors larger companies climbed to a new high of 60.4.

- The unemployment rate rose to 9.6% in August as employed workers and the labor force both rose. At the end of August, unemployment was 14.9 million with another 8.9 million part-time workers for economic reasons and 6.1 million persons not in the labor force but who would like a job (including discouraged and marginally attached workers). U6 unemployment, which doesn't include workers who haven't searched in the last year, rose to 16.7%.

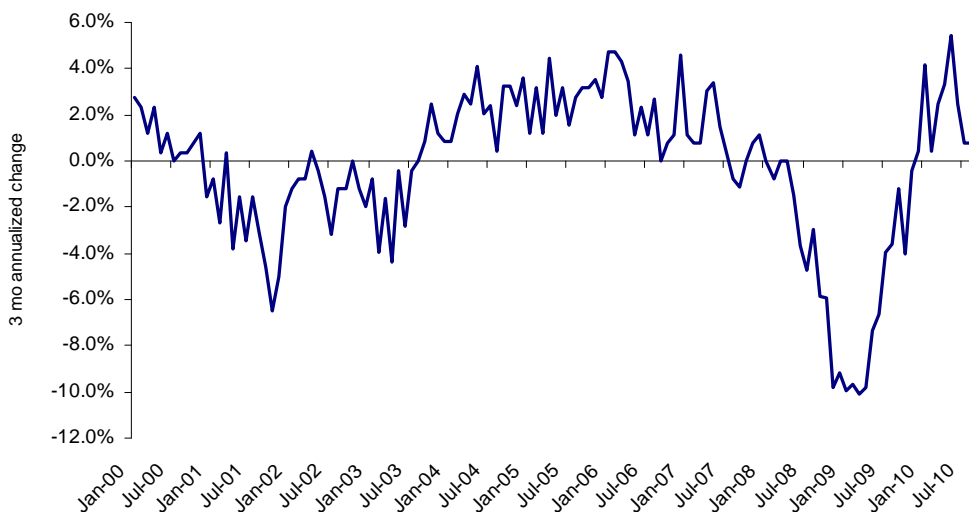
Unemployment Rates (last obs. August 2010)



Source: Bureau of Labor Statistics; Encima Global

- With the tepid growth in employment and hours, annualized growth in aggregate weekly hours worked by production and nonsupervisory workers (weekly hours times jobs) stayed flat at 0.8% in the three months through August.

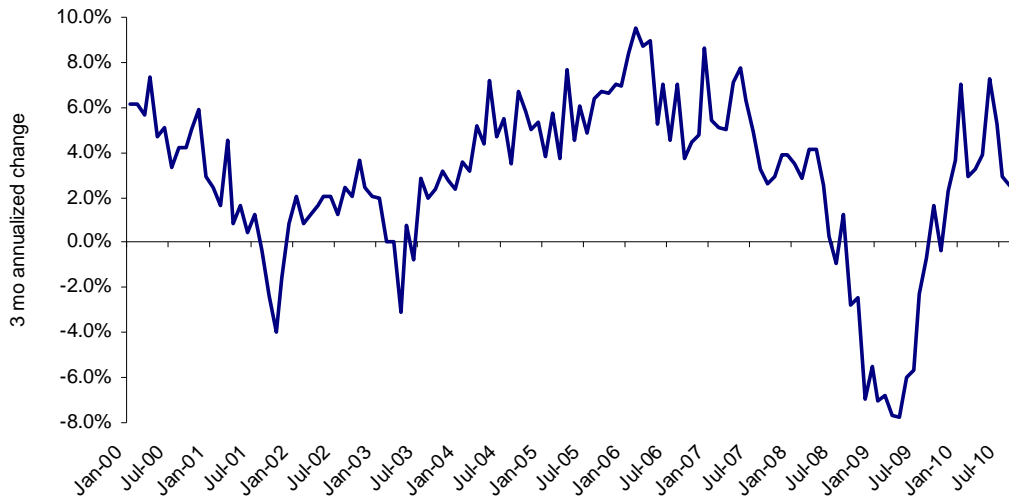
Aggregate Weekly Hours Index (last obs. August 2010)



Source: Bureau of Labor Statistics; Encima Global

- Aggregate weekly payrolls (the product of hours, earnings and employment) for production and nonsupervisory workers slowed to 2.6% annualized for the three months ending in August. This is consistent with a slowing GDP growth like many other macroeconomic figures.

Aggregate Weekly Payrolls index (last obs. August 2010)

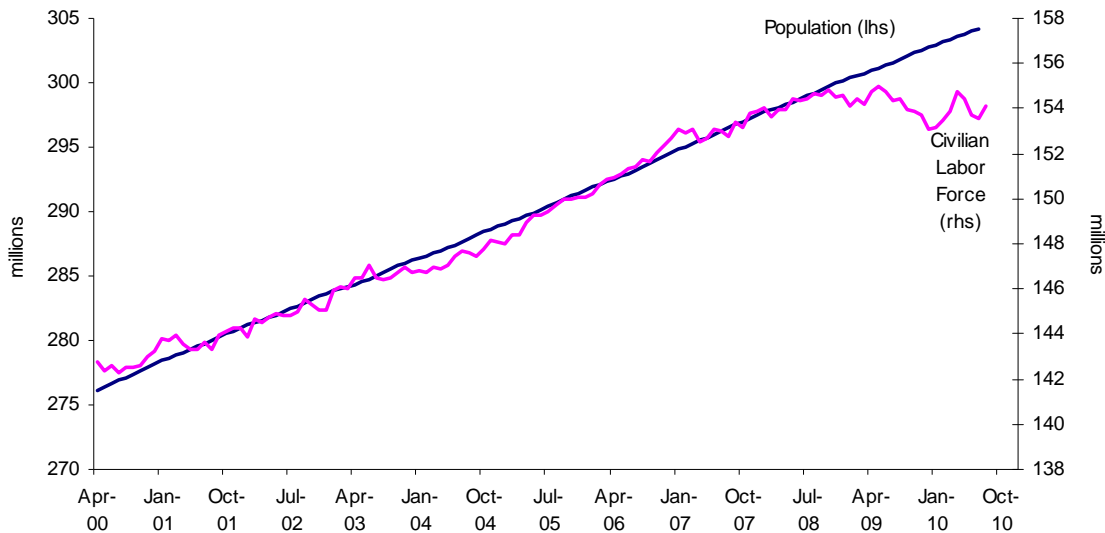


Source: Bureau of Labor Statistics; Encima Global

More Employed, More Unemployed

The unemployment rates rose primarily because the 290,000 gain in employment in the household survey was exceeded by the 550,000 increase in the civilian labor force to 154.1 million. Going forward, we expect the economy to grow enough to produce gains in employment, but the labor force should also grow leaving the unemployment rate relatively high. In effect, there's an overhang of workers waiting for better labor conditions to reenter the labor force.

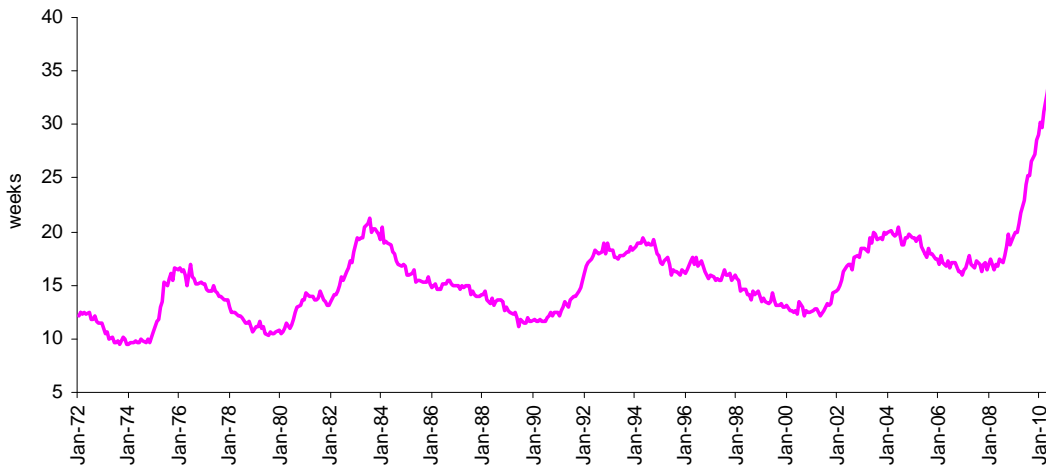
Population and the Civilian Labor Force (last obs. August 2010)



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

- The average duration of unemployment fell to 33.6 weeks but remains near peak levels, with the median duration now 19.9 weeks. 6.2 million workers have been unemployed more than 27 weeks.

Duration of Unemployment (last obs. August 2010)



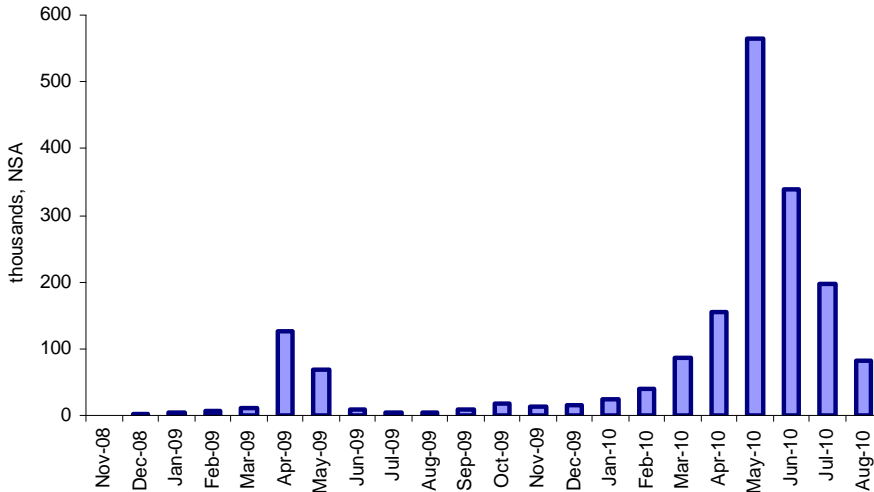
Source: Bureau of Labor Statistics; Encima Global

Government Workers Declining

In August the federal government released 111,000 workers leaving 2.9 million total federal workers.

- Census hiring peaked in May. The release of temporary census workers reduced the number of employed workers in August by 114,000. There are still 82,000 temporary census workers to be released in the coming months.

Federal Government Decennial Workers (last obs. August 2010)



Source: Bureau of Labor Statistics; Encima Global

- Since 2009, state and local governments have also been letting workers go. In August, state and local governments released 10,000 workers. There are currently 19.5 million state and local government workers. We expect net layoffs to gradually worsen.

State and Local Government Payroll Growth m/m change (last obs. Aug 2010)



Source: Bureau of Labor Statistics; Encima Global

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