

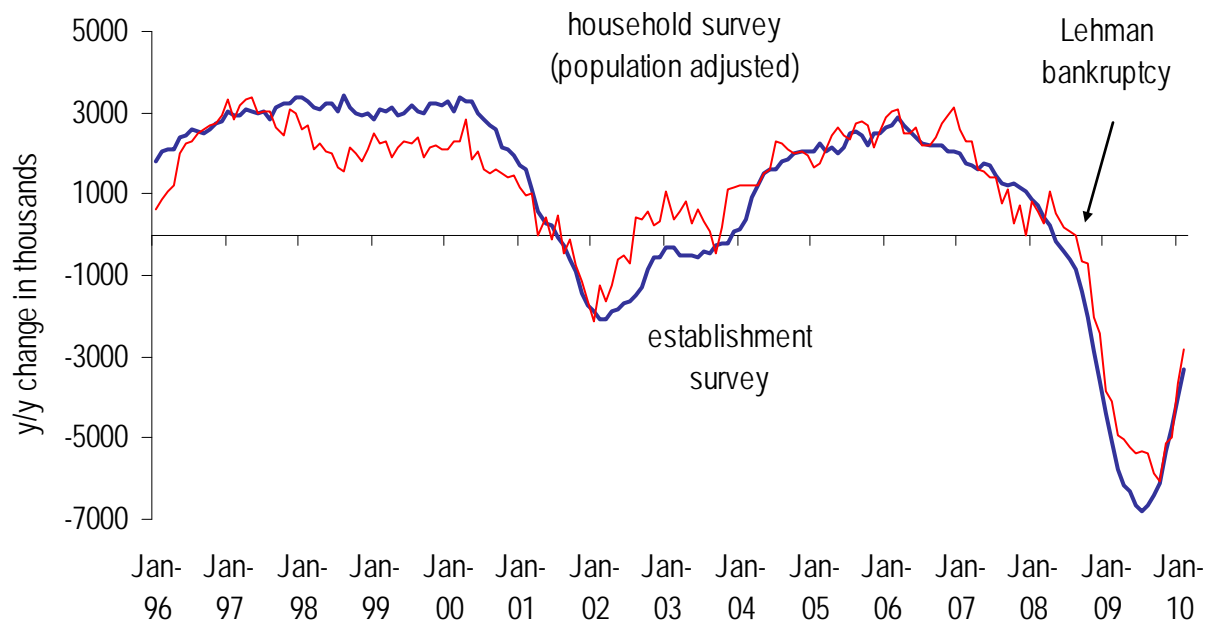
March 7, 2010

Unemployment Stays at 9.7%, but Discouraged Unemployment 16.8%

Friday's employment data showed 36,000 net job losses in February in the establishment survey. This was better than the consensus 65,000 net job loss expectation. The survey did show a decrease in the average workweek for all workers to 33.8 hours, down 0.1 from January's figure in part due to the weather.

- The household survey showed a 308,000 gain in jobs in February after a 541,000 gain in January and a 589,000 loss in December. The household survey, which takes account of small and new businesses, had been lagging the establishment survey for the five months through December, but has caught up in 2010. Big companies cut jobs faster than small businesses after Lehman, then bottomed earlier in 2009. Small businesses bottomed in late 2009 and should add private sector jobs in coming months.

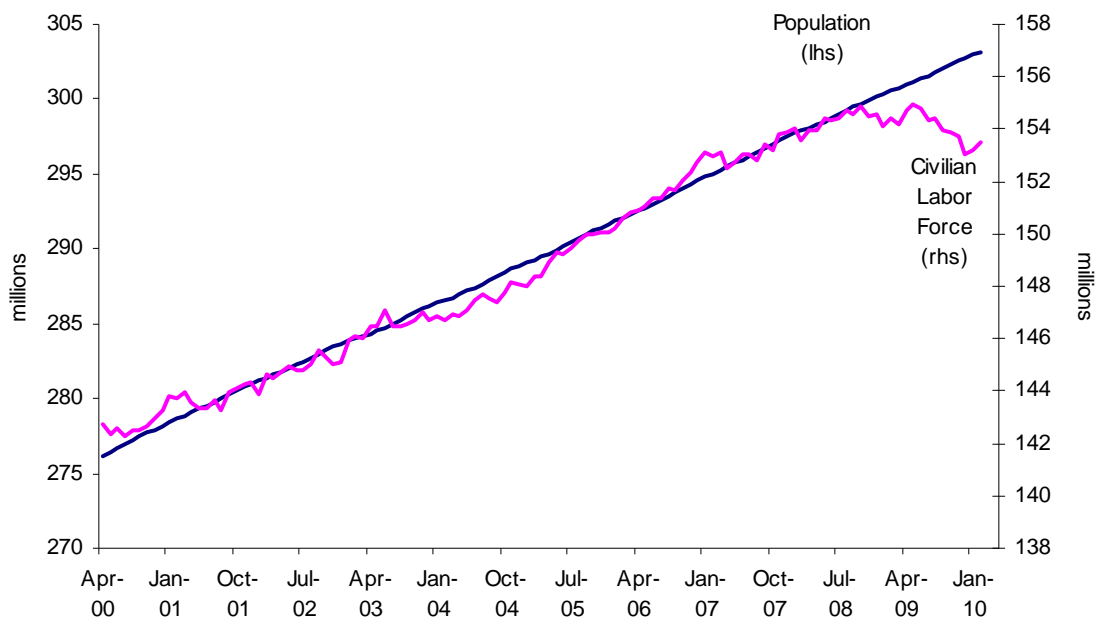
Annual Changes in Employment (last obs. February 2010)



Source: Bureau of Labor Statistics; Encima Global

- The unemployment rate stayed at 9.7% in February. The household data shows that the civilian labor force increased 342,000 versus the 308,000 gain in jobs. The number of unemployed rose 34,000 to 14.9 million by the official measure.
- The unemployment rate has been held down by a decline in the labor force. The decline reflects early retirements, discouraged workers, and slower entry by young workers. If the growth in the labor force had maintained its pre-recession trend relative to population, it would be about 157 million and the number of unemployed would be over 18 million with the unemployment rate nearly 12%. Many of those lost workers will again seek employment once the economy picks up, boosting GDP but also keeping the unemployment rate high.

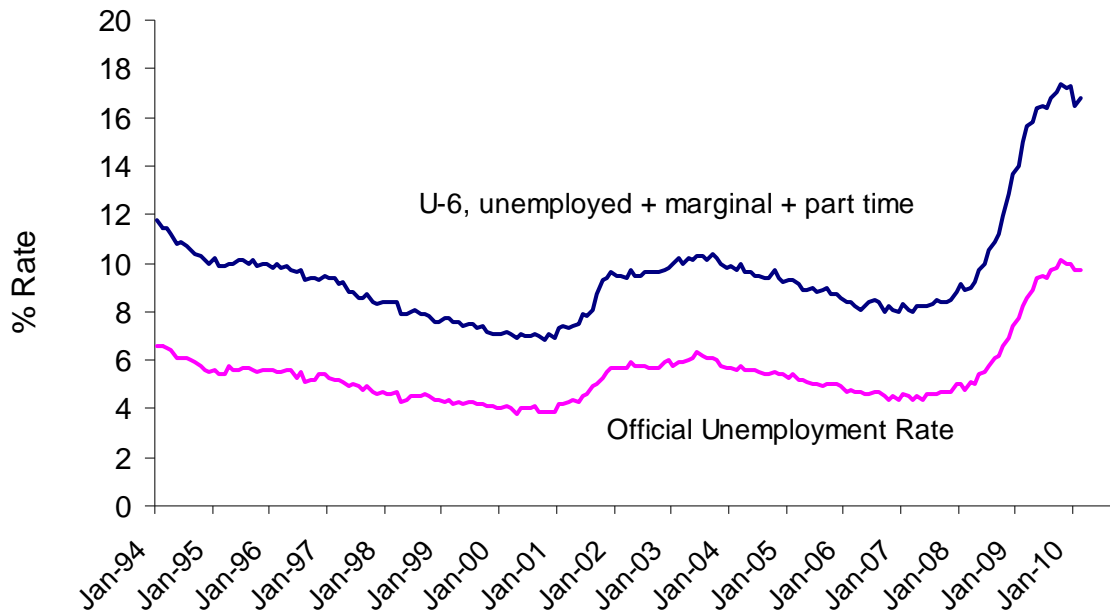
Population and the Civilian Labor Force (last obs. February 2010)



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

- U-6 underemployment rose to 16.8% in February from 16.5% in January, a contrast with the steady 9.7% unemployment rate in the official U-3 figure. Most of the U-6 rise was due to an increase in workers who were part-time for economic reasons. That rose to 8.8 million in February from 8.3 million in January. This is partly due to weather, but likely held down personal income in February.

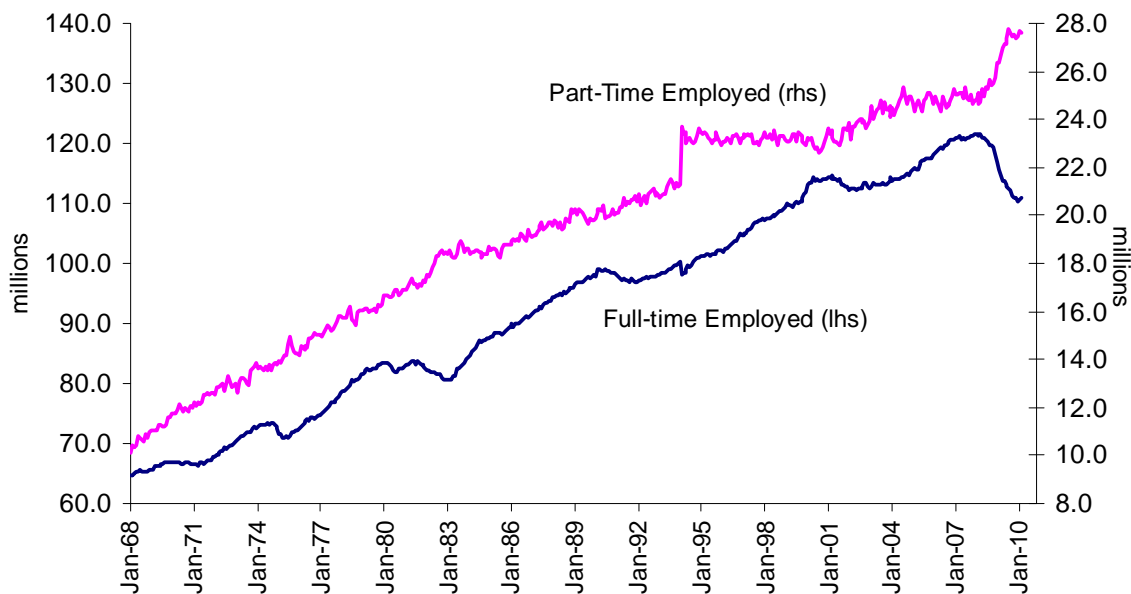
Unemployment Rate and Underemployment Rate (last obs. February 2010)



Source: Bureau of Labor Statistics; Encima Global

- In total, part-time workers fell 122,000, reflecting a welcome shift to full-employment for many workers. The number of full-time workers rose 343,000, an uptick that will probably continue and add to consumer confidence in coming months.

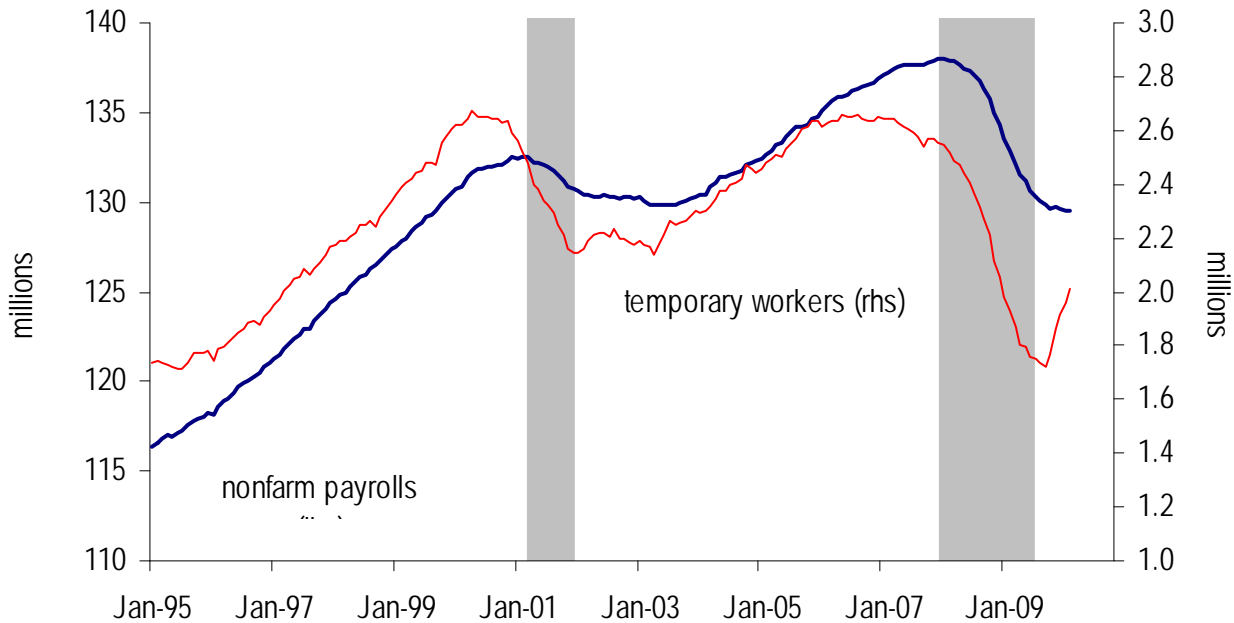
Part-time and Full Time Employed (last obs. February 2010)



Source: Bureau of Labor Statistics; Encima Global

- Often a leading indicator of broader employment gains, temporary employment continues to be a bright note in the labor report, gaining 47,500 in February. Temporary employment has risen 284,300 from the September low. The increase in temp and part-timers is sharper than in the past, reflecting a strong cyclical recovery but also a hesitation by businesses to make a longer-term commitment.

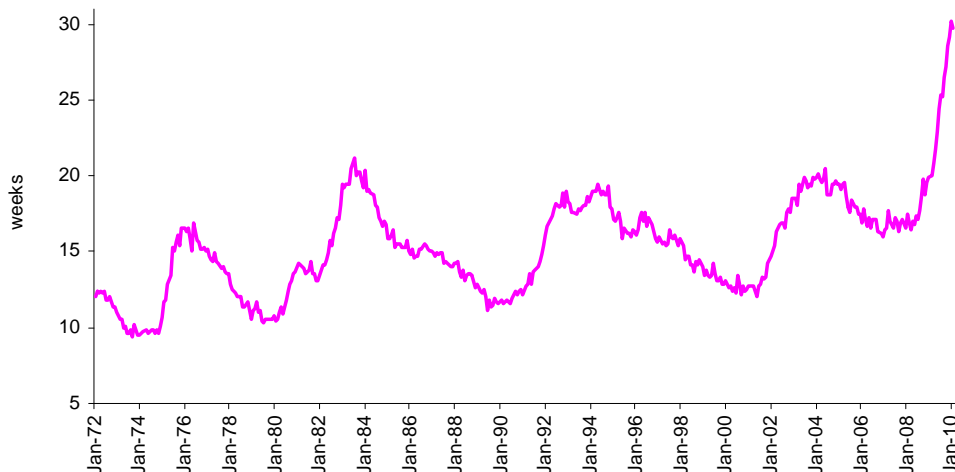
Temporary Workers Rising (last obs. February 2010)



Source: Bureau of Labor Statistics; Encima Global

- The average duration of unemployment has come down slightly to 29.7 weeks in February from its peak at 30.2 weeks in January.

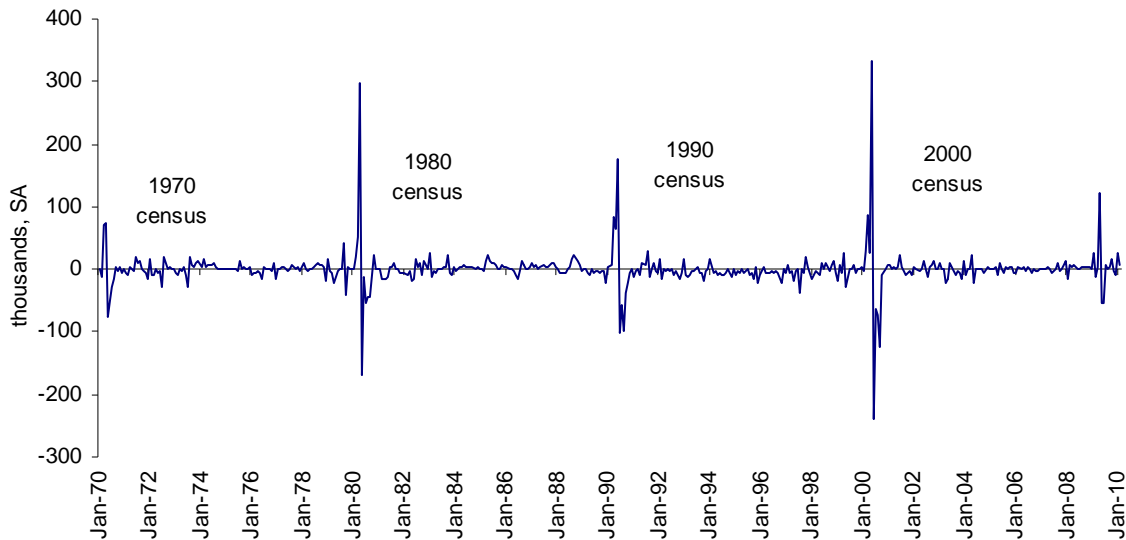
Duration of Unemployment (last obs. February 2010)



Source: Bureau of Labor Statistics; Encima Global

- The federal government hired a net 7,000 workers in February. 15,000 temporary workers were hired for the Census 2010. This was partially offset by the decline in U.S. Postal workers. Census hiring will be much stronger in March and April, almost assuring strong job growth in the March data released April 3.

Federal Government Hiring (last obs. February 2010)



Source: Bureau of Labor Statistics; Encima Global

Labor Dynamism Improving Some

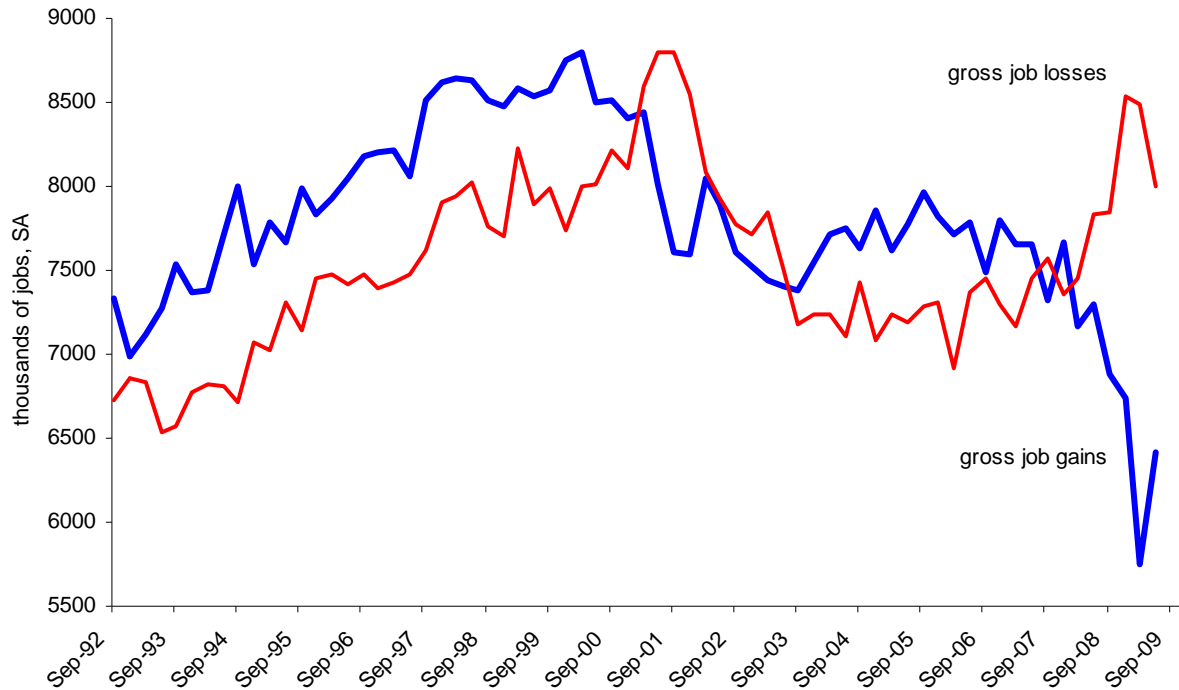
Looking beyond census hiring (and the subsequent layoffs), the strength of the small business recovery will be a key variable in reducing unemployment.

- We think rapid growth in government spending causes businesses to invest and hire less because they expect higher tax rates.
- Credit availability is still one of the major obstacles to small business growth.
- While Washington has verbally encouraged banks to lend to small businesses, there hasn't been much progress on the regulatory/accounting obstacles.
- The rationing effect of the near-zero Fed funds rate seems likely to continue into the foreseeable future -- the disturbances in European markets are likely to stall ECB leadership in central bank exit strategy.
- The effect of commercial real estate problems on lenders will continue to deter small businesses. See our individual pieces on each of these small business obstacles.

The Labor Department provides a quarterly study of employment turnover, a measure of labor dynamism, though with a long lag. The latest study, released February 23 for the second quarter of 2009, showed that gross job gains improved to 6.4 million, but were still well below

the average 8 million quarterly gain from 1992-2007. Gross job losses in the second quarter fell to 8.0 million, consistent with the net job loss for the second quarter of 1.6 million.

Gross Job Gains and Losses (last obs. Q2 2009)

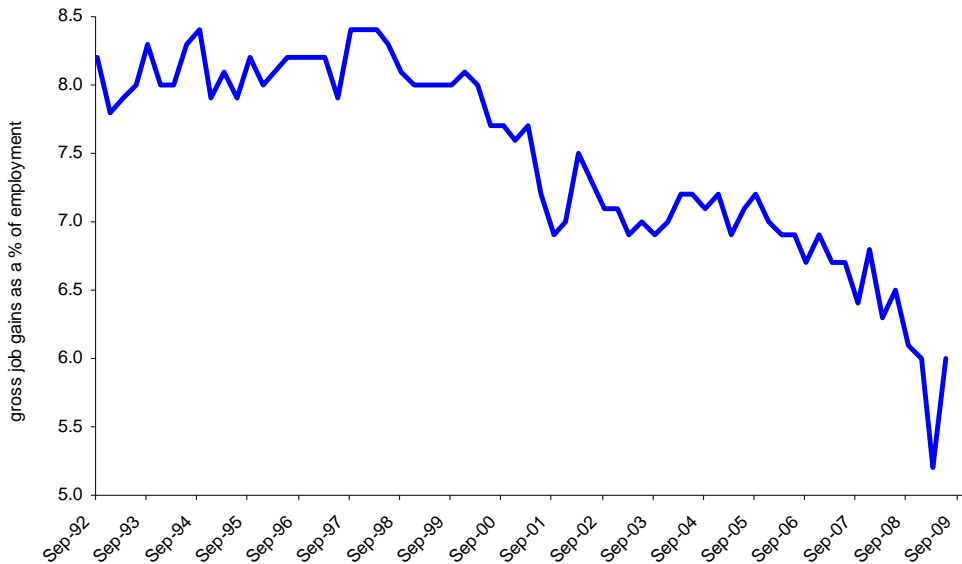


Source: Bureau of Labor Statistics; Encima Global

One of the engines of U.S. economic growth has been the dynamism of the labor environment. Businesses got new workers. Workers built new skills.

- In the 1990s, roughly 8% of jobs were new each quarter. This declined to 7% in most of the 2000s, then slumped to 5.2% in the first quarter of 2009 and recovered to 6.0% in the second quarter of 2009.
- Of the new jobs in the second quarter of last year, 4.8% came from the expansion of existing businesses, 1.2% from newly-created businesses.

Gross Job Gains Per Quarter as % of Employment (last obs. Q2 2009)



Source: Bureau of Labor Statistics; Encima Global

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