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Private Sector Jobs Grow, Govt Shrinks

The August establishment survey found no net change in employment, a weaker outcome than the household survey and data from ADP and jobless claims. Private sector employment grew 17,000, held down by a 45,000 reduction due to the Verizon strike. The downward revisions to June and July subtracted 55,000 from government workers and 3,000 from private sector workers.

- The smaller household survey found an unchanged 9.1% unemployment rate with an increase in employment of 331,000 and an increase in the workforce of 366,000. This pushed unemployment up to 14.0 million from 13.9M in July.

- Since the beginning of the year, the establishment survey shows that the economy added 872,000 total jobs and 1.2 million private sector jobs, which now agrees with ADP's 1.2 million private sector gains, while the household survey shows a smaller 893,000 total gain despite the big August increase. All three surveys have disappointed.

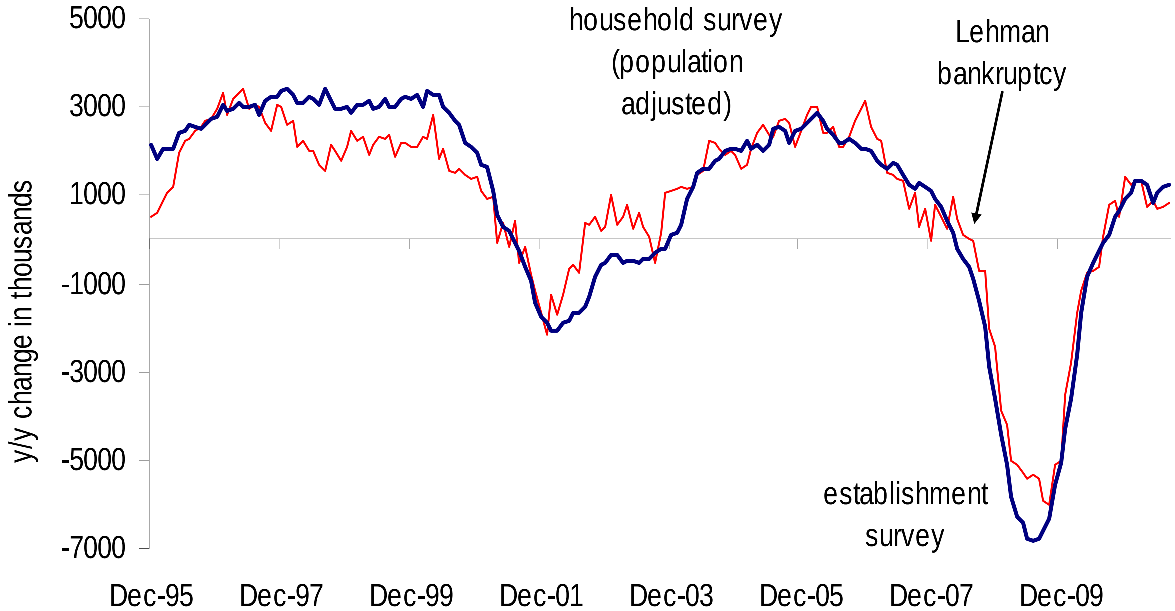
Monthly Change in Jobs (last obs. August 2011)

		Establishment Payrolls		Households
	ADP	Private	Total	Pop Adj.
January 2010	-50	-42	-39	789
February 2010	4	-21	-35	183
March 2010	49	144	192	250
April 2010	113	229	277	425
May 2010	42	48	458	-33
June 2010	50	65	-192	-263
July 2010	31	93	-49	-105
August 2010	63	110	-59	272
September 2010	32	109	-29	107
October 2010	79	143	171	-297
November 2010	122	128	93	-178
December 2010	246	167	152	293
January 2011	190	94	68	589
February 2011	205	261	235	250
March 2011	203	219	194	291
April 2011	179	241	217	-190
May 2011	35	99	53	105
June 2011	144	75	20	-445
July 2011	109	156	85	-38
August 2011	91	17	0	331

Source: ADP; Bureau of Labor Statistics (population-adjusted series); Encima Global

- The two Labor Department surveys differ substantially at times because the establishment survey takes full account of large employers and government whereas the smaller household survey includes jobs from small and new employers along with larger employers. The Verizon strike reduced establishment survey employment by 45,000 whereas it probably had little impact on the household survey (if asked in the household survey, the striking Verizon worker probably considers himself employed.)

Annual Growth in Employment (last obs. August 2011)



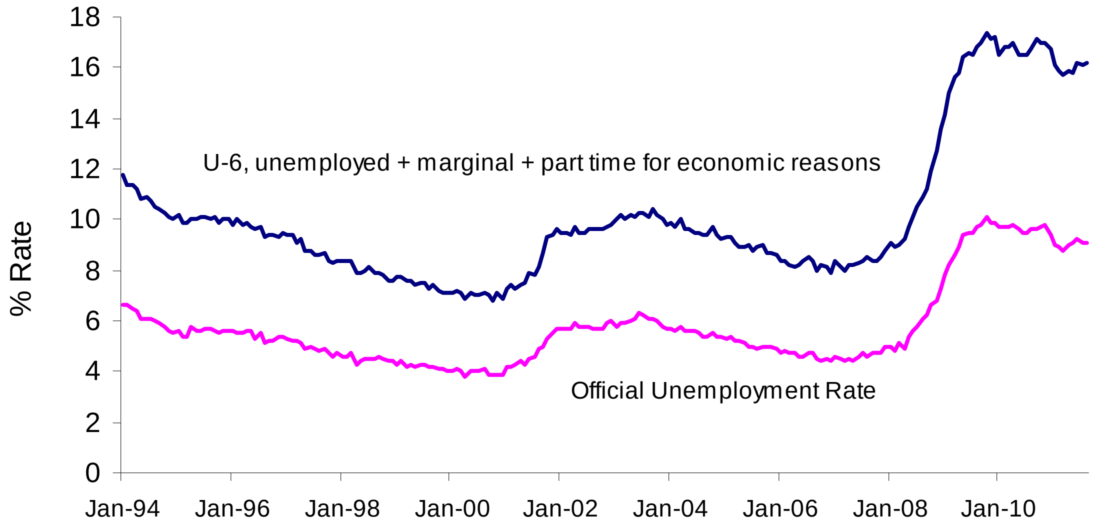
Source: Bureau of Labor Statistics; Encima Global

- There's a clear pause in hiring among larger employers and actual reductions by government. As in 2010, double-dip predictions are widespread, but we think the slowdown is more likely a second wave of weakness related to the confidence shocks in July and August from Europe's debt crisis and the U.S. fiscal situation. We put emphasis on less-bad data from ADP, jobless claims and auto sales. Their information is timely and based on hard, raw data, not small surveys. However, developments on European and U.S. government policy continue to be negative, adding to the risk of continued weakness in the fourth quarter and 2012 (see Near-Term Cautions on August 17).

Changes in the Labor Force

Unemployment rate is at 9.1% in August, the same as July. Underemployment rose to 16.2%, up 0.1%.

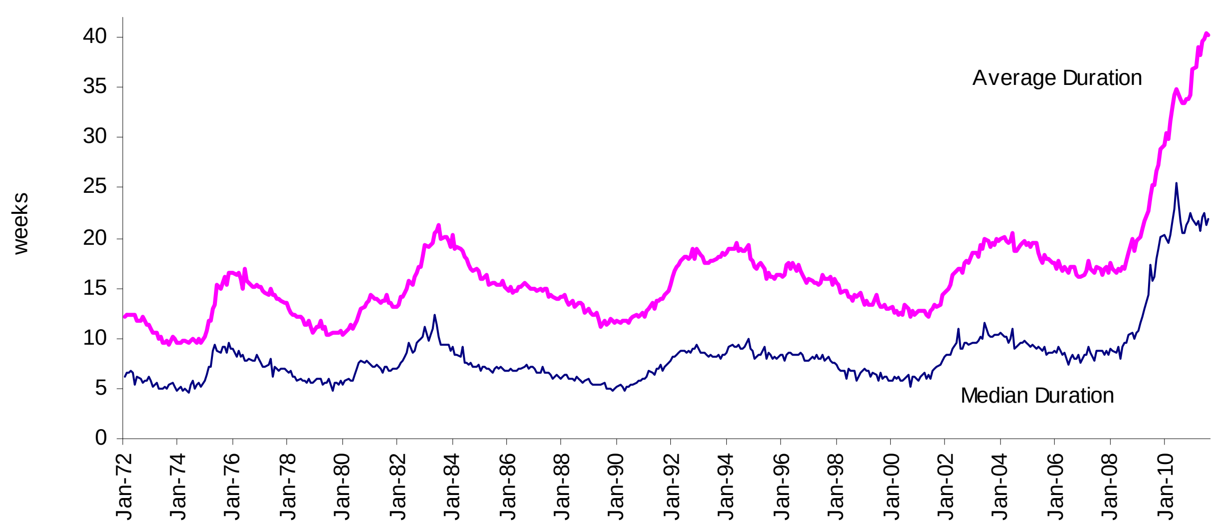
Unemployment and Underemployment Rate (last obs. August 2011)



Source: Bureau of Labor Statistics; Encima Global

- The average duration of unemployment fell to 40.3 weeks, while the median duration of unemployment rose to 21.8 weeks.

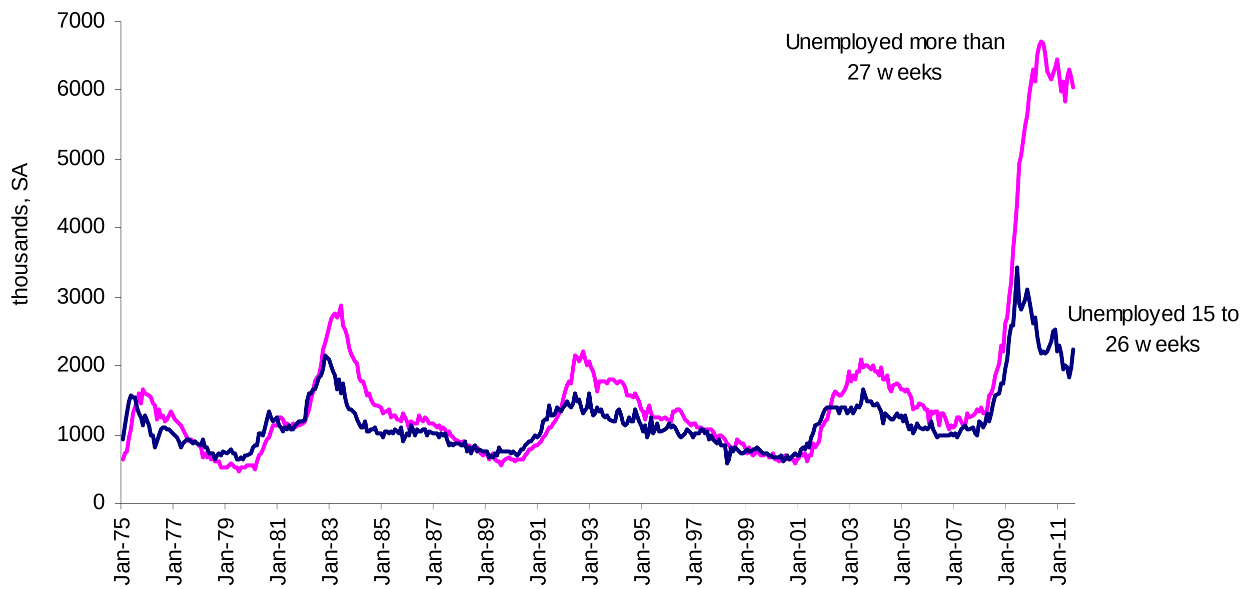
Average and Median Duration of Unemployment (last obs. August 2011)



Source: Bureau of Labor Statistics; Encima Global

This shows a bifurcation – long-term unemployed are not finding jobs as readily as those who lost their jobs more recently. There are now 6.0 million workers unemployed for more than 27 weeks (peak was 6.7M in May 2010). The number of unemployed between 15 and 26 weeks stands at 2.2 million, well below the peak of 3.4 million in June 2009. There is a clear improvement, but from very high levels.

Unemployed Longer than 27 Weeks (last obs. August 2011)



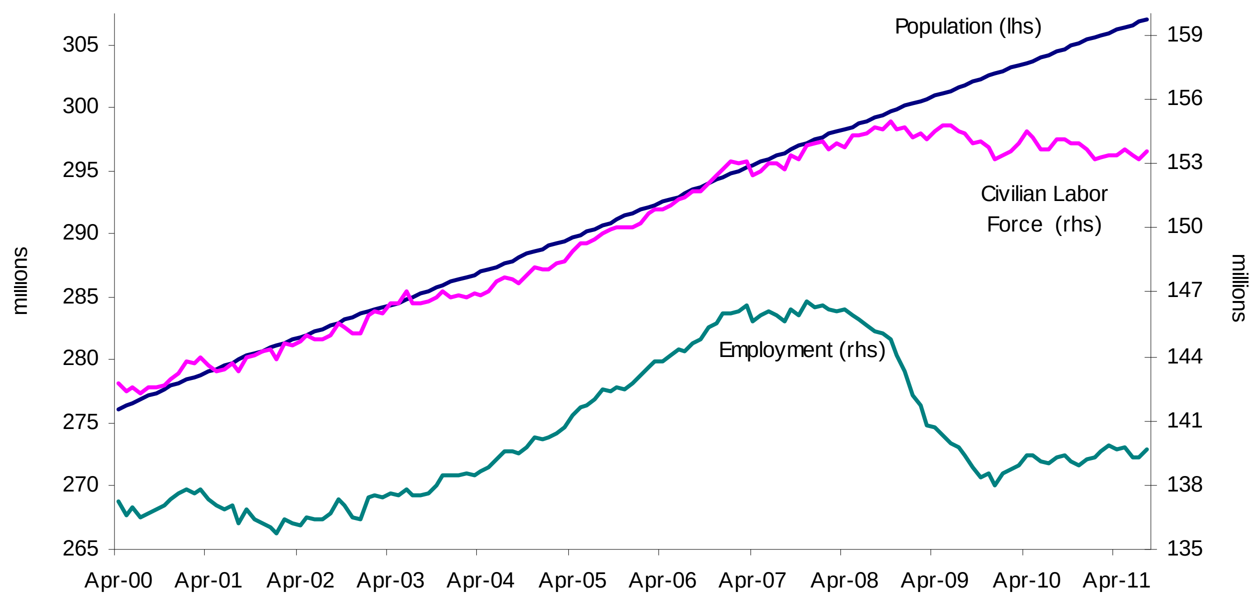
Source: Bureau of Labor Statistics; Encima Global

- Given this dynamic, many longer-term unemployed will receive unemployment benefits through their 99 week limit at which point some will find work and many will drop out of the labor force, reducing the unemployment rate. Roughly 3.6 million long-term unemployed will reach the 99 week limit during 2011, with roughly another million losing federal unemployment benefits in January 2012 assuming federal benefits are discontinued then, creating substantial downward pressure on the unemployment rate partially offset by the overhang in the labor force.

- **Even if job growth becomes faster, the unemployment rate is likely to stay higher than could be considered "full employment" under the Fed's dual mandate. This has implications for the conduct of monetary policy and the value of the dollar (which is not taken into consideration in the Fed's current interpretation of its price stability mandate). The Fed has a mandate to achieve full employment, which will be hard to accomplish given the overhang of unemployment. And in pursuing its price stability mandate, the Fed watches out for red flags in labor inflation which may be delayed well into the expansion because of the overhang of unemployed workers and the normal long lag between dollar weakness and general price inflation.**

- The labor force grew an average 120,000 per month from 2000 through 2008 and has been in a decline since then. This reflects discouraged workers, a probable exodus of immigrant workers especially in construction, and the sharp secular downshift in the prime labor force growth rate as the baby boom retires.

Employment, Civilian Labor Force and Total Population (last obs. August 2011)

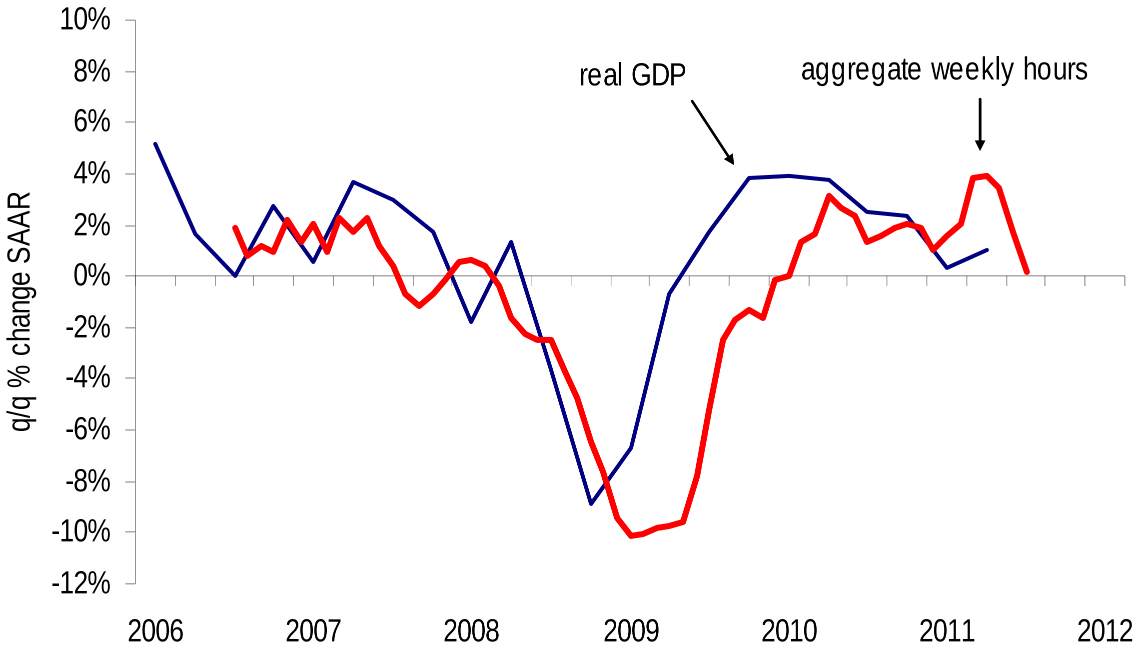


Source: Bureau of Labor Statistics; Encima Global

- The prime working age population (18-64) grew 167,000 per month (1% annual rate) from 2000-2010 but will slow by half to only 84,000 per month (0.4% growth) from 2011-2020. The slowdown in the growth of the prime working age population **should help some on the unemployment rate as will workers dropping out of the labor force after their extended unemployment benefits expire due to the 99 week limit.** With the baby boom entering retirement, we expect only slow labor force growth in coming decades.

- In August, average weekly hours worked fell 0.1 to 34.2. This may reflect the large losses of full-time government workers. The June-August aggregate hours index (which includes hours worked times number of workers) grew a mere 0.1% annualized rate (q/q), down from a peak 3.9% rate in March-May This measure gives a rough indication of real growth and implies we are standing at the edge of a recession.

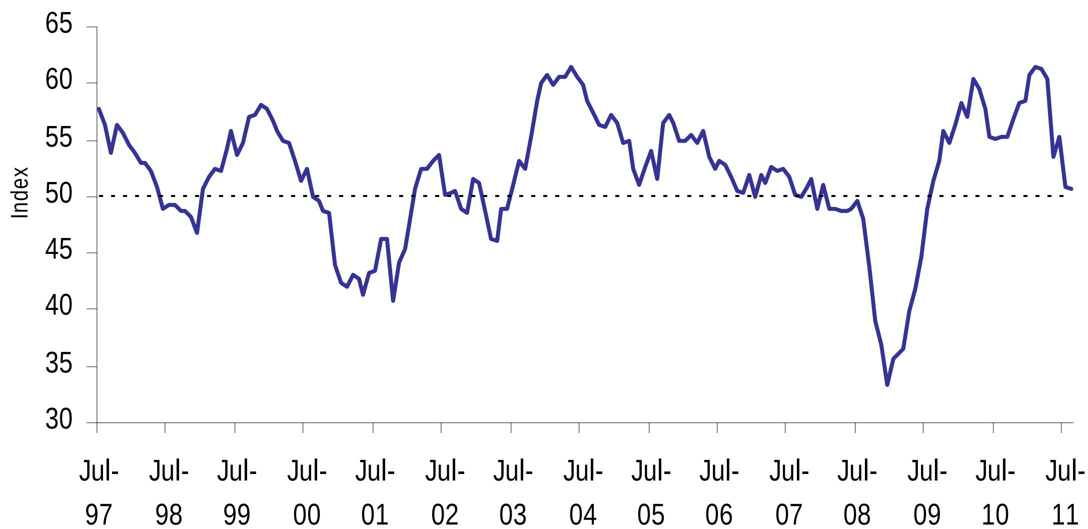
Aggregate Weekly Hours suggests weaker real GDP (last obs. August 2011)



Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Encima Global

- The ISM Manufacturing survey has also suffered a sharp downturn. It stood at a weak 50.6 for August.

ISM Manufacturing (last obs. August 2011)



Source: Institute for Supply Mnagement; Encima Global

- An indication of nominal growth comes from the combination of the aggregate weekly hours index times average hourly earnings which fell 0.1% in August to $23.09. Some of this decline may be due to the exclusion of striking high-paid Verizon workers from the data. **The quarter-over-quarter annualized growth for this nominal measure is 2.1%, the slowest rate since February 2010.**

- On a year-over-year basis, average hourly earnings increased only 1.9%. This lags behind the inflation rate of 3.6% and the growth in broader personal income (which includes job growth, dividend increases and the bulge in transfer payments.) **While the economy as a whole is generating gradually more income and taxes, some of it is coming through the increase in federal debt -- an individual worker earning average wages isn't keeping up with inflation.**