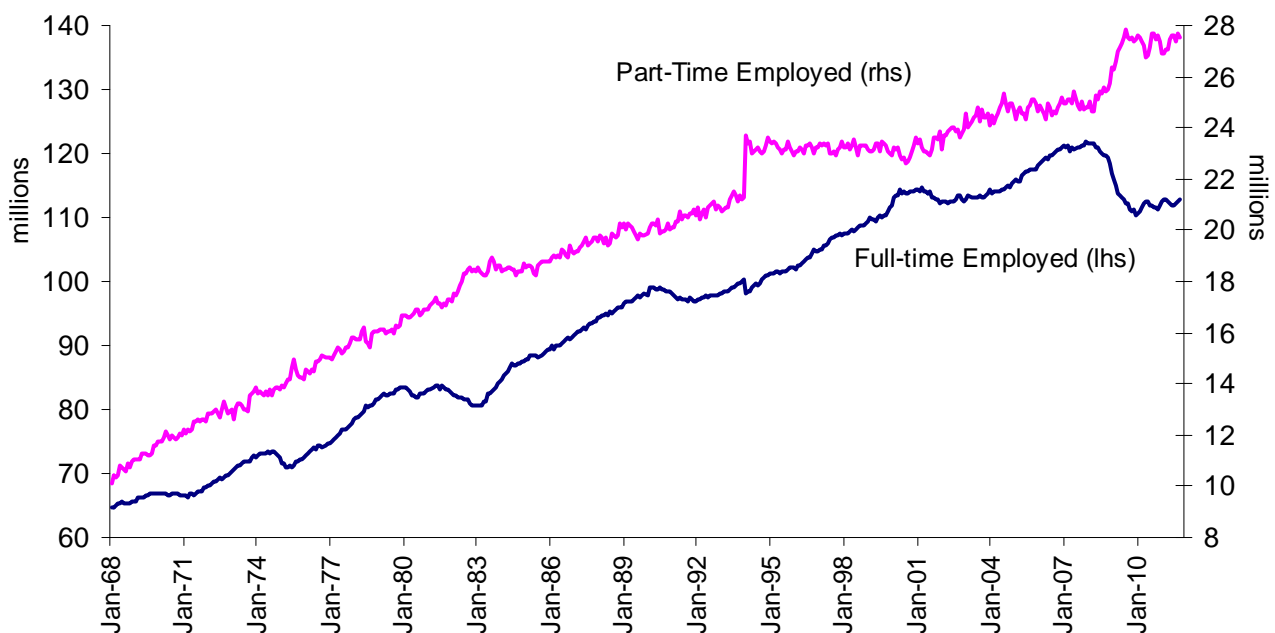


Households Gained a Million Jobs In 3 Months; Underemployment Falling

The October U.S. employment gain was better than the 80,000 headline number suggests, but the outlook is still dominated by the deterioration in Europe, where Italian bond yields are taking another devastating jump today (see graph of break points in Italian yields in yesterday's piece on Europe's Key Variables.) If we thought Europe could solve its debt problems in a growth-oriented way or that U.S. growth could decouple from Europe's downward spiral, we would be very favorable on U.S. equities at current valuations.

- Jobs grew 80,000 in the October establishment survey, with private sector employment up 104,000 versus the 110,000 from the ADP survey. The 80,000 gain was below the consensus of 95,000, but the combined August and September totals were revised up a strong 102,000.
- Also on the positive side, the household survey showed a 277,000 increase. Other data from the survey show a 421,000 increase in full-time workers versus a 190,000 reduction in part-time workers. The labor force, which has lagged population growth, increased 181,000 in October from September and is up 0.2% from a year ago.

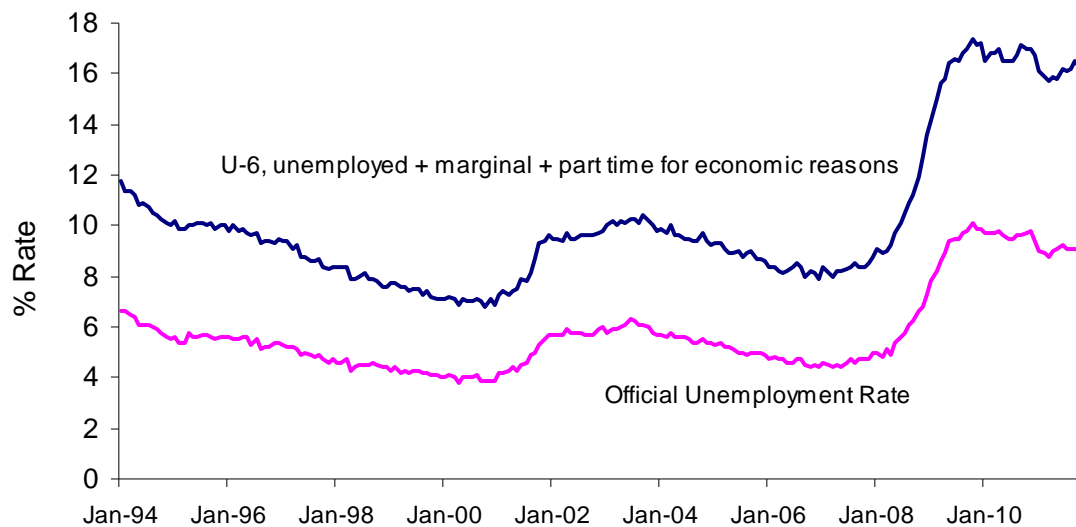
Part-Time and Full-Time Employed (last obs. October 2011)



Source: Bureau of Labor Statistics; Encima Global

- Unemployment edged down to 9.0% from 9.1%. As discussed in previous pieces, we think the unemployment rate may start to do better than job growth as the 99-week unemployment benefit runs out and many of those workers start being recorded as having left the labor force (for example, early retirement).
- The broader U6 underemployment rate, which includes discouraged workers and workers who want more hours but are working part-time for economic reasons, fell to 16.2% in October from 16.5% in September. This was mostly due to a decline in people working part-time for economic reasons, suggesting they are now working more hours or are more content with the number of hours they are working.

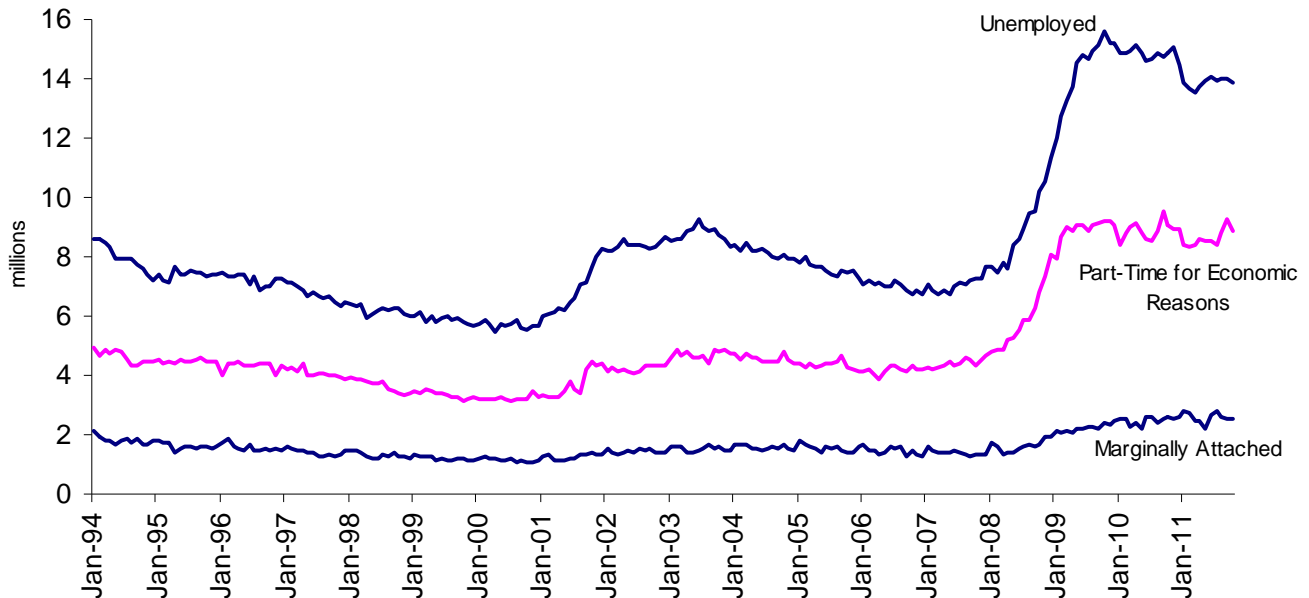
Unemployment and Underemployment Rate (last obs. October 2011)



Source: Bureau of Labor Statistics; Encima Global

- The U6 underemployment rate is made up of 13.9 million unemployed, 8.9 million working part-time for economic reasons and 2.6 million considered marginally attached (meaning they would like a job and have looked for work in the last year but not in the last four weeks.) Part-time for economic reasons fell by 374,000. It seems reasonable to conclude that many of these workers converted to full time work.

Underemployment Components (last obs. October 2011)



Source: Bureau of Labor Statistics; Encima Global

- Our interpretation of the employment data is that small- and medium-sized businesses are hiring more and gradually adding hours for part-time workers.** This may explain the big upward revisions to the establishment survey in September and October (since smaller businesses take an extra month or two to comply with the Labor Department's survey). This interpretation is also consistent with the outperformance in the household survey (up over a million in the last three months) and the improvement in full-time in the household survey.
- If so, this has positive implications for fourth quarter GDP growth and for Christmas sales because personal income growth will improve.** Federal tax receipts in October were 5.7% above October 2010, whereas the payroll index rose only 3.6% -- it combines weekly hours worked times average wages for the jobs captured by the establishment survey.
- The various employment measures have converged and are showing a weak labor environment but not a recession. Since the beginning of the year, the household survey shows that the economy added 1.6 million total jobs, with the establishment survey showing 1.3 million total jobs (after substantial upward revisions). The establishment survey showed 1.5 million private sector jobs, which is a bit more than ADP's 1.4 million private sector gains.

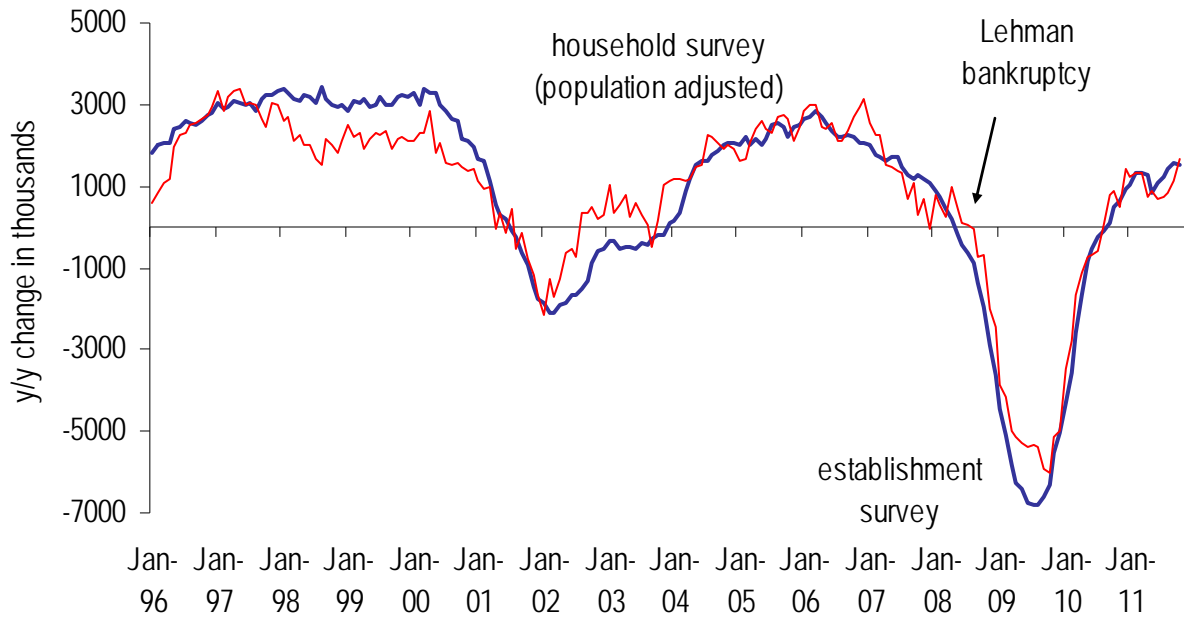
Monthly Change in Jobs (last obs. October 2011)

	<u>ADP</u>	<u>Establishment Payrolls</u>		<u>Households</u>
		<u>Private</u>	<u>Total</u>	<u>Pop Adj.</u>
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	107	173	127	-38
August 2011	85	72	104	331
September 2011	116	191	158	398
October 2011	110	104	80	277

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. For example, in the early 2000s in the graph below, the household survey showed more growth than the establishment survey (which was initially even weaker than the current data but has been subsequently revised upward.)

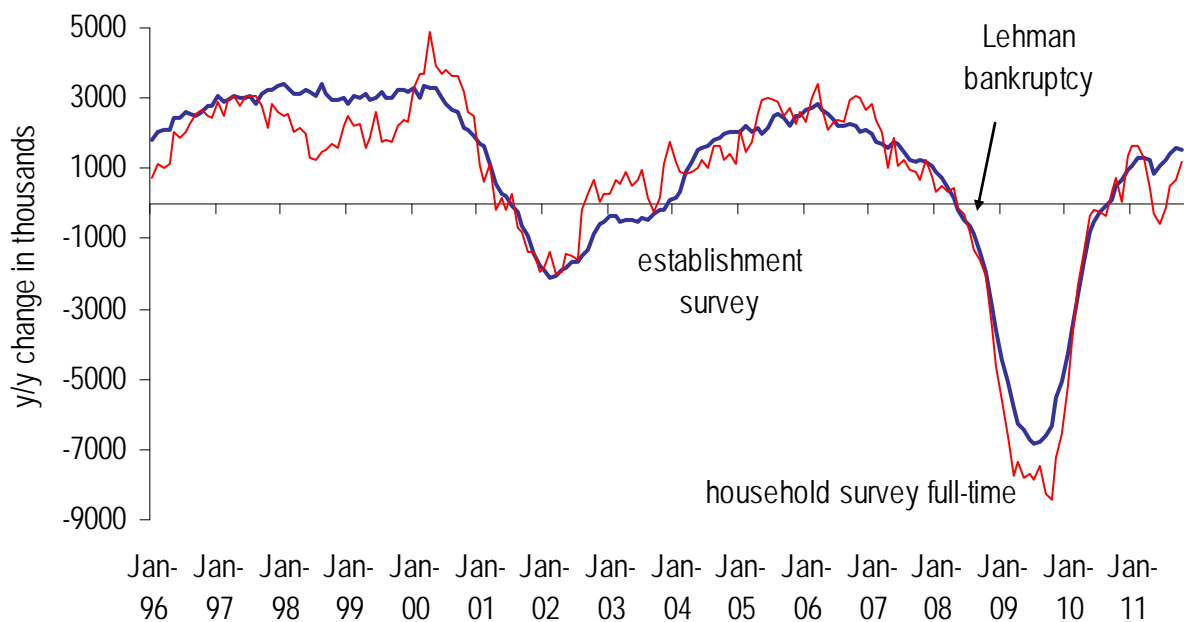
Annual Growth in Employment (last obs. October 2011)



Source: Bureau of Labor Statistics; Encima Global

- The graph below shows the weakness and improvement in the household survey's data on full-time employment in 2011. The dip is consistent with the feeling of a weak economy, with an improvement in recent months.

Annual Growth in Employment with Full-Timers (last obs. October 2011)



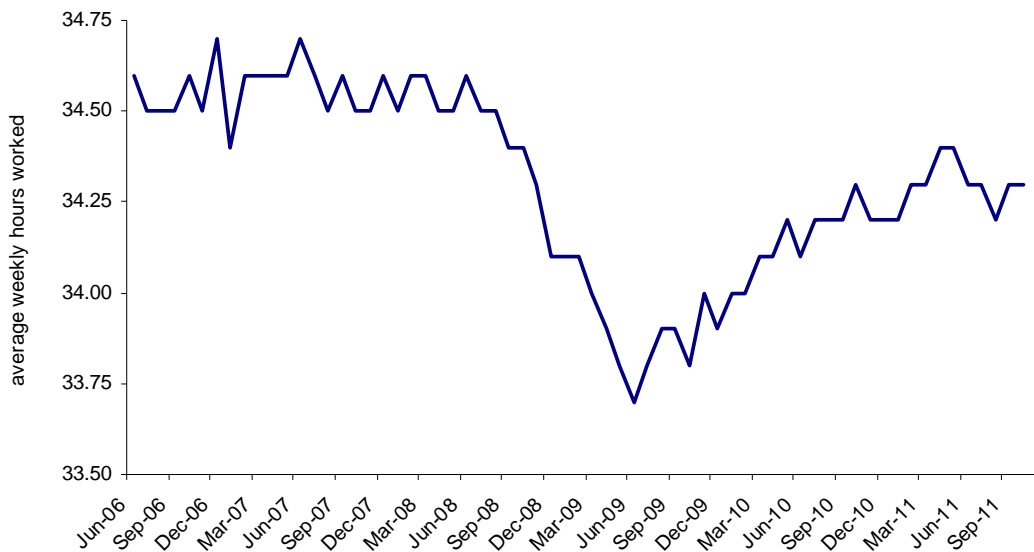
Source: Bureau of Labor Statistics; Encima Global

Labor Environment Isn't Improving Enough

While all the surveys showed decent job gains in October, average year-to-date gains (157,000 per month in the household survey) won't be enough to improve the unemployment rate (it was 9.0% in January and 9.0% in October.) The U-6 underemployment rate has increased from 16.1% in January to 16.2% in October.

- In October, average weekly hours stayed at 34.3 in the establishment survey even though the household survey is showing more full-timers. We think the establishment survey will see some strength in hours worked or revisions in coming months, giving a lift to employment perceptions.

Average Weekly Hours Worked (last obs. October 2011)



Source: Bureau of Labor Statistics; Encima Global

- Average hourly earnings rose only 0.2% in October to \$23.19. On a year-over-year basis, average hourly earnings increased 1.8%. This lags behind the inflation rate of 3.9% and the growth in broader personal income (which includes job growth, dividend increases and the bulge in transfer payments.)

Average Hourly Earnings Y/Y (last obs. October 2011)



Source: Bureau of Labor Statistics; Encima Global

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