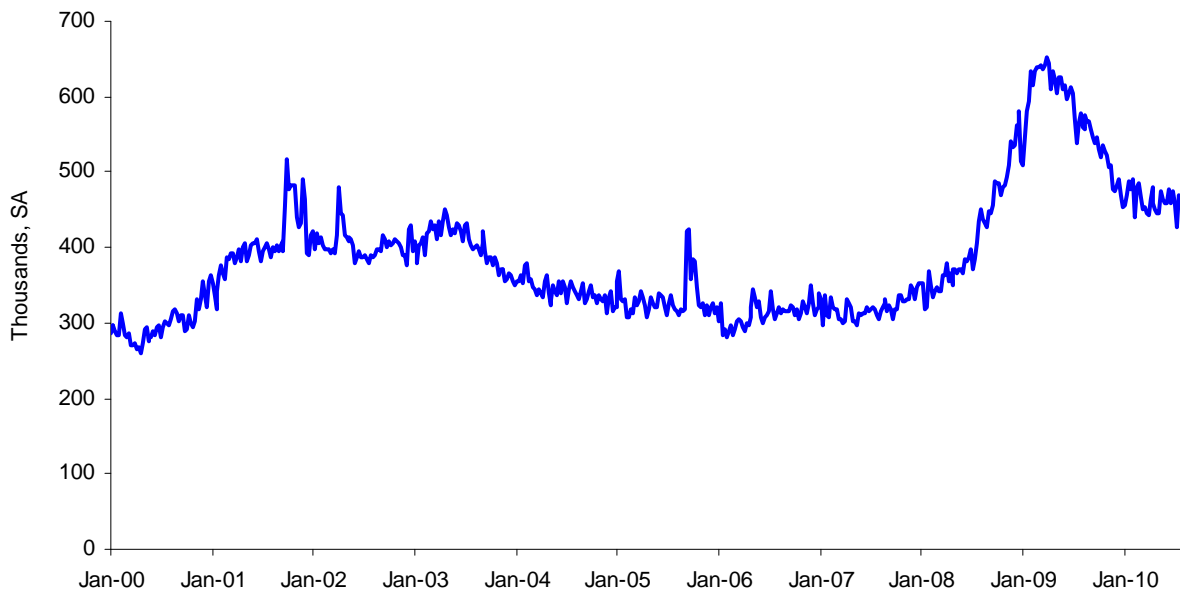


August 5, 2010

Jobless Claims Higher, but Underlying Details Not So Bad

Jobless claims rose to 479,000 for the week ending July 31. We think initial jobless claims have been one of the best indicators of the severity of the recession and the softness of the recovery. Claims declined steadily from the March 2009 peak of 651,000 but have stalled, with the four-week average stuck at 458,000. This is still as bad as any part of the 2001 recession.

Initial Unemployment Claims (last obs. July 31, 2010)



Source: Bureau of Labor Statistics; Encima Global

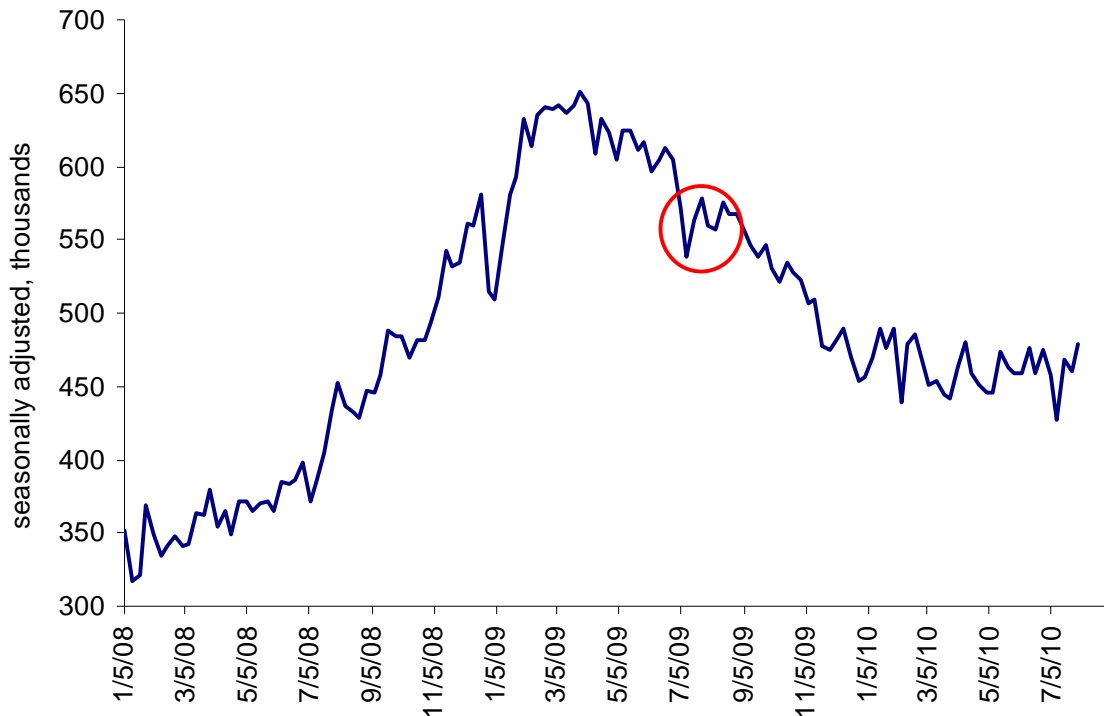
- Three underlying factors soften the negative news from jobless claims – possible blips from the seasonal adjustments, some optimism from the ADP data, and the likelihood that the census dismissals are inflating the initial claims somewhat.
- We think private sector payroll growth and household survey jobs (data due tomorrow) will continue to gradually improve despite today's weak jobless claims data.

Seasonal Adjustment Factors Adding to Claims

The seasonal adjustment factor lowered the seasonally adjusted claims early in July in both 2009 and again in 2010 relating to the timing of seasonal shut downs of auto plants.

- In 2009, seasonally-adjusted claims rose through July, in part due to the seasonal adjustment factors, and then subsided. We expect a repeat in 2010, with seasonally adjusted claims falling in August and September.

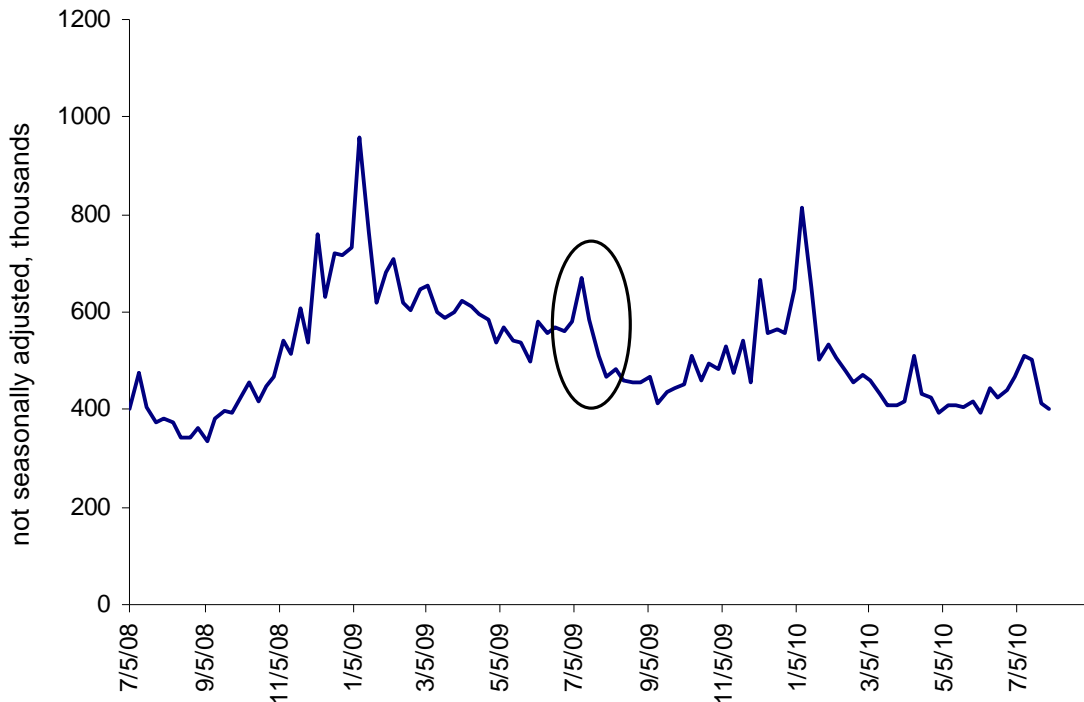
Initial Unemployment Claims, Seasonally Adjusted (last obs. July 31, 2010)



Source: Bureau of Labor Statistics; Encima Global

- At 399,600, initial claims on a non-seasonally adjusted basis were actually the lowest in eight weeks in today's release, and are almost down to the level at the time of the Lehman bankruptcy (claims were 397,600 in the week ending Sept. 19, 2008).

Initial Unemployment Claims Not Seasonally Adjusted (last obs. July 31, 2010)



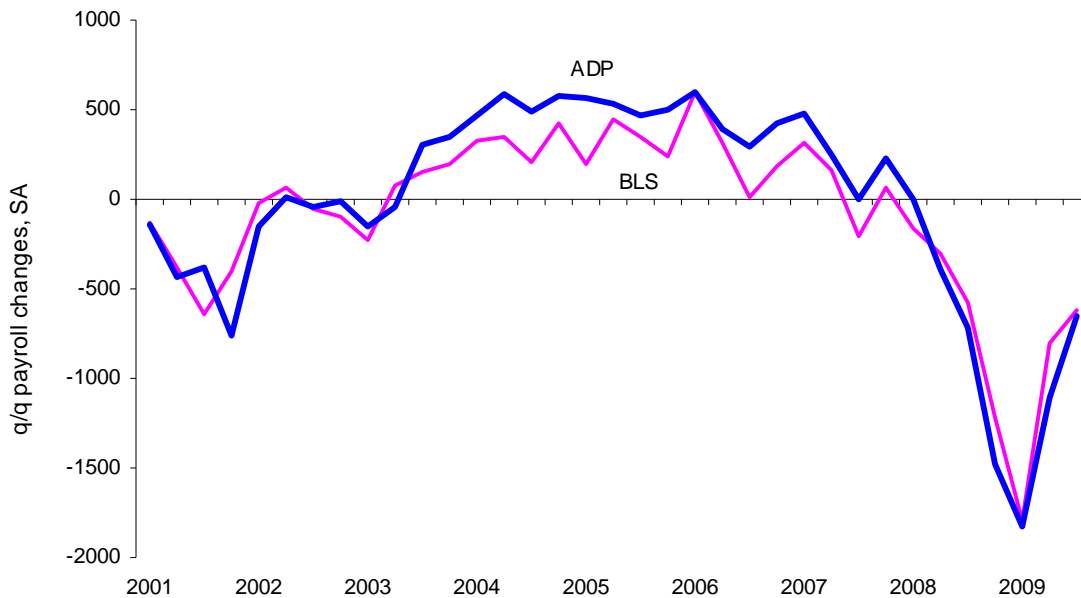
Source: Bureau of Labor Statistics; Encima Global

ADP and Gallup Data Not So Bad

The ADP data released Wednesday suggests that private job growth may continue to gradually improve.

- The August 4 ADP data showed only 42,000 private sector job gains in July. There's been a general improvement since March 2009, but job growth figures have been volatile and remain weak.
- Over the last six months, private sector payroll data from BLS has been higher than ADP, averaging 82,000 more private sector job gains. This is at least in part because large business hiring is not picked up well in the ADP data. We think big companies are doing better than average in this recovery, enjoying an advantage over smaller companies under current Washington policies – big companies are better able to cope with the credit crunch, low Fed funds rate, heavy regulatory burden, and rising top marginal tax rate.)
- The ADP data has been a good predictor of BLS gains in small and medium-sized companies. For the month of July, small businesses (with less than 50 employees) added 21,000 jobs. Medium sized businesses (with between 50 to 499 employees) added 21,000 jobs.

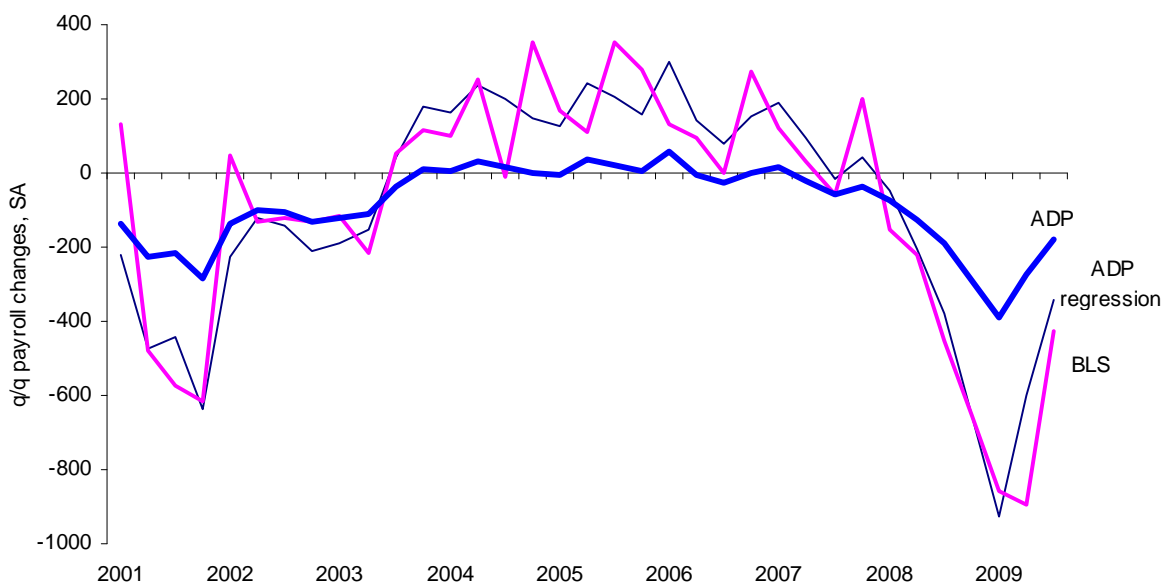
Small and medium size companies jobs gains ADP and BLS (last obs. Q3 2009)



Source: ADP; Encima Global

- The July ADP data showed that large companies (with over 500 employees) showed no job gains. However, historical data shows that BLS big-company payroll growth has tended to swing more widely than the ADP big-company data and, on average, grow more. A regression shows big company payroll data has tended to equal about three times the ADP data plus 50,000.

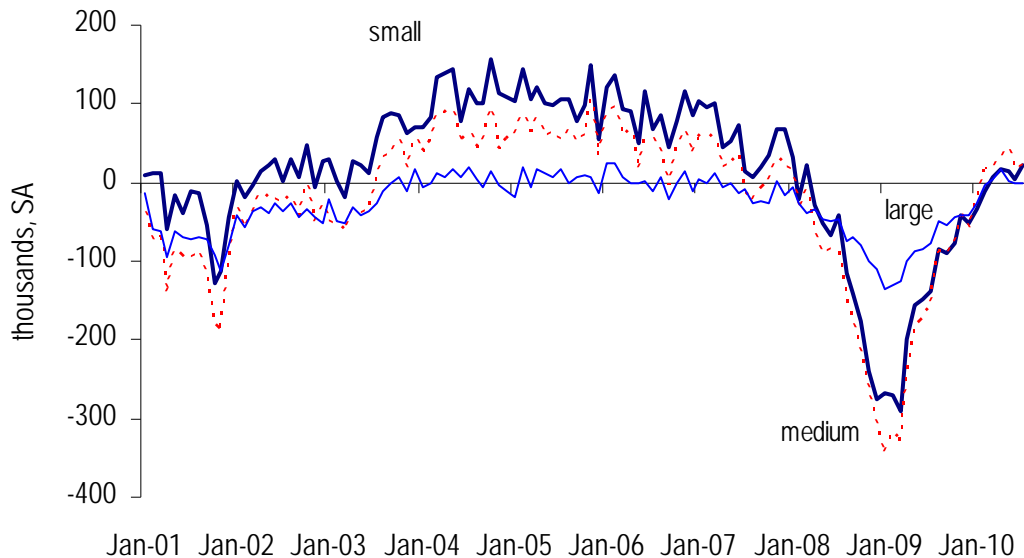
Large companies jobs gains ADP, BLS and regression (last obs. Q3 2009)



Source: ADP; Encima Global

- Combining small, medium and large company data from ADP suggests 92,000 private sector payroll growth in tomorrow's BLS release (the Bloomberg consensus is 90,000.)

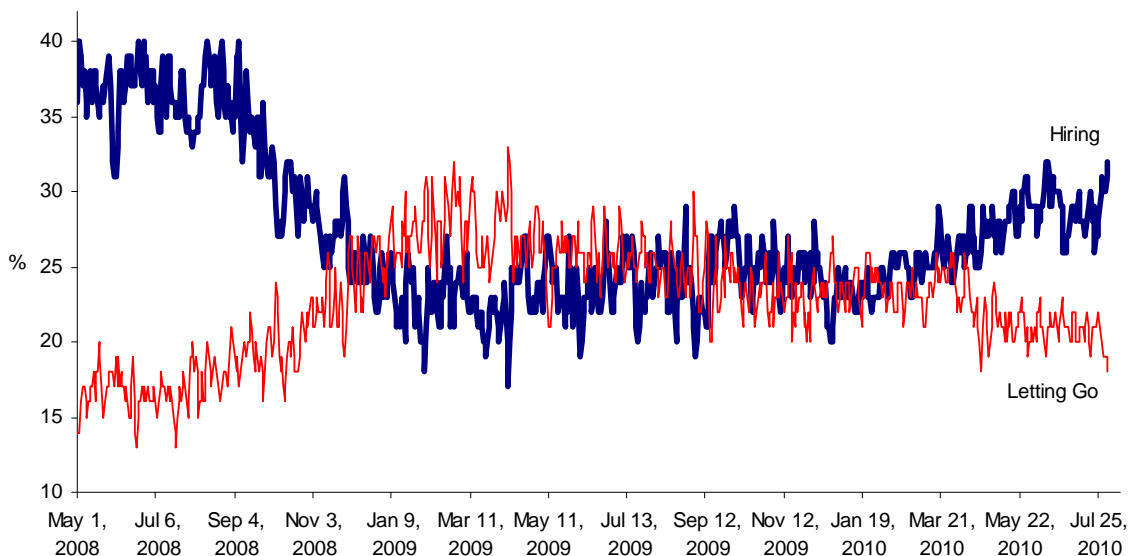
ADP Job Gains by Firm Size (last obs. June 2010)



Source: ADP; Encima Global

- Gallup's daily jobs poll shows that hiring intentions have improved (far right-hand side) relative to perceptions that companies will let workers go. This ought to lead to a further decline in initial jobless claims in the coming weeks.

Gallup Daily Jobs Poll (3-day averages, last obs. August 3, 2010)



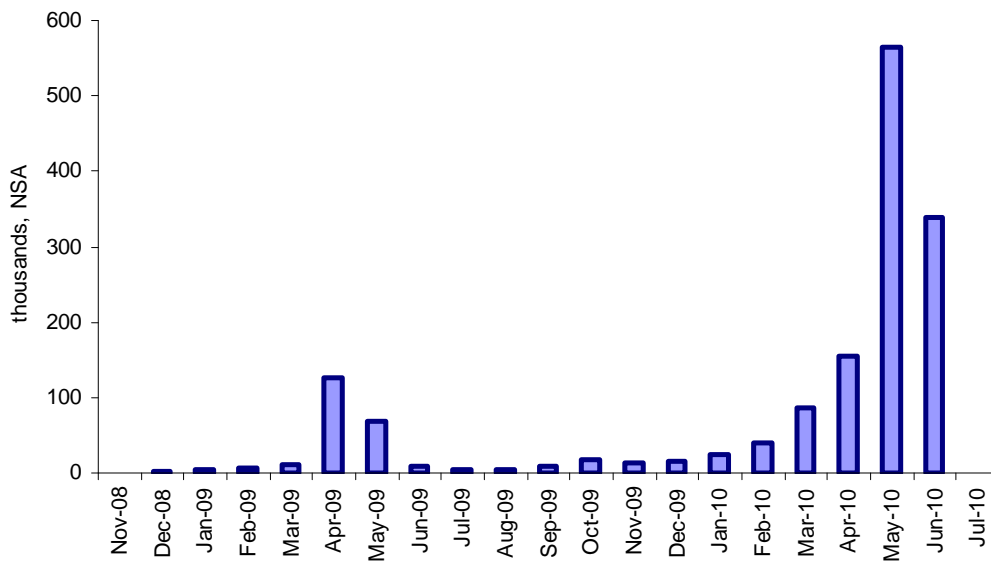
Source: Gallup Poll; Encima Global

Government Workers Declining

Census hiring peaked in May. The release of temporary workers is adding some to initial jobless claims and will reduce the number of employed workers in the July data. We expect the census layoffs to subside in coming weeks, allowing initial jobless claims to decline.

- In June the federal government released 198,000 workers out of the 3.2 million total federal workers. For July we would expect them to release somewhat fewer workers, say 135,000.

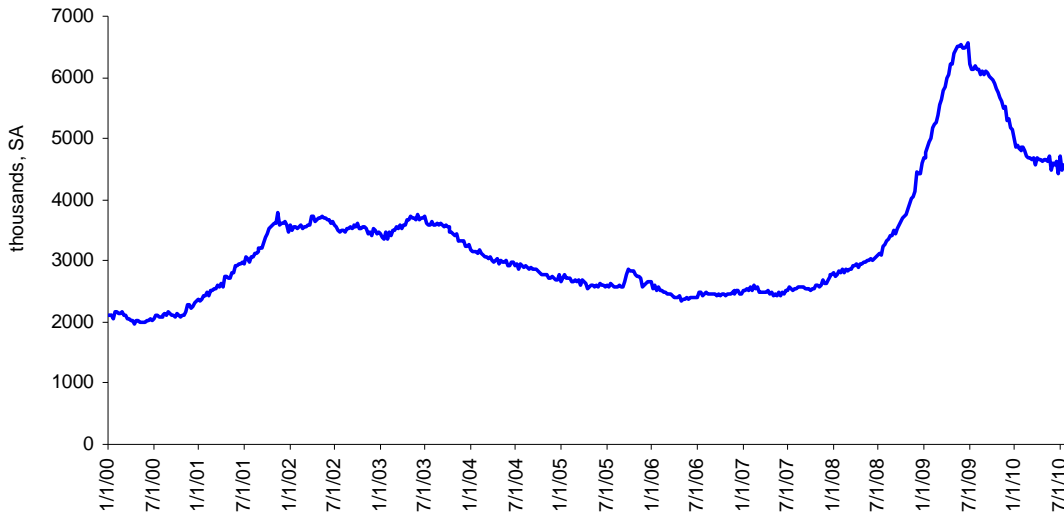
Federal Government Decennial Workers (last obs. June 2010)



Source: Bureau of Labor Statistics; Encima Global

- For some workers, this will create new eligibility for unemployment benefits after the census. As discussed in our previous pieces, this suggests a small second hump in continuing claims in the second half of 2010 (though it shouldn't be nearly as high as the earlier peaks.)

Continuing Claims (last obs. July 24, 2010)



Source: Bureau of Labor Statistics; Encima Global

Since 2009, state and local governments have also been letting workers go. There are currently 19.6 million state and local government workers. On average 11,000 workers were released each month in 2009. So far this year through June 2010, there has been an average of 16,000 workers released each month. We expect net layoffs to gradually worsen.

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



Source: Bureau of Labor Statistics; Encima Global

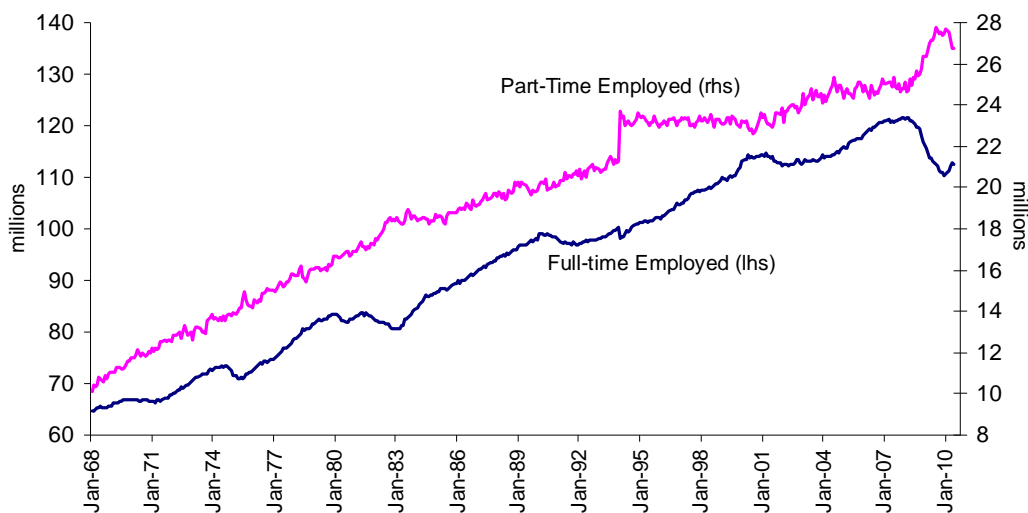
- **In combination, tomorrow's data may show a 135,000 loss in federal jobs in July, with a roughly 15,000 decline in state and local workers. Adding in the 92,000 gain in private sector workers, this may push the overall payroll loss for July to -58,000 (though the BLS sample is relatively small and will be revised repeatedly.)**

Still Big Drags on New Workers

As shown in high jobless claims, small and new businesses are still very cautious in their hiring, feeling severe pressure in terms of after-tax profits, credit availability, taxes and other Washington policies. Weakness in commercial real estate contributes to the caution on hiring. We expect enough job growth for moderate GDP and consumption, but not enough to feel robust. At the end of June, unemployment was 14.6 million with another 8.6 million part-time workers for economic reasons and 6.5 million persons not in the labor force but who want a job (including discouraged and marginally attached workers).

- There has been a substantial shift toward part-time employment helping explain the sense of weakness in the labor environment. The recent shift from part-time to full time work probably dampened the overall June hiring figure.

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

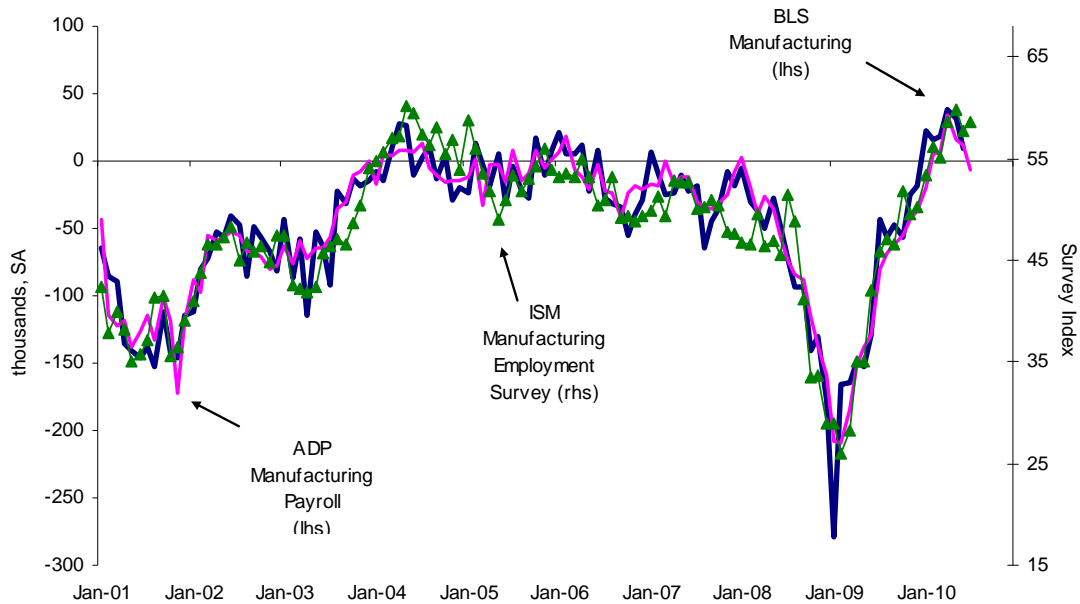


Source: Bureau of Labor Statistics; Encima Global

Three major data sources are provide information on manufacturing jobs -- BLS, ADP and ISM. While the ISM manufacturing index fell slightly in July to 55.5 from June's 56.2, the manufacturing employment index showed an increase to 58.6 in July from 57.8 in June.

- ADP manufacturing payrolls showed a small decrease in manufacturing jobs of 6,000 in July. Over the last six months, manufacturing payrolls in the establishment survey have been better than ADP data by an average of 14,000. This suggests that the establishment survey may show manufacturing jobs increased 8,000 in July which is just below the Bloomberg consensus of 10,000.

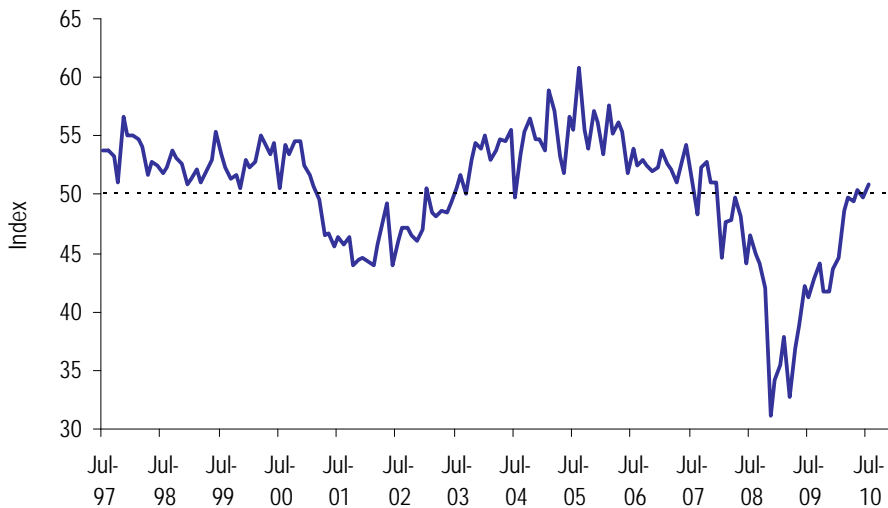
Manufacturing Employment from BLS; ISM and ADP (last obs. ISM and ADP July 2010; BLS June 2010)



Source: BLS; ISM; ADP; Encima Global

- The ISM Non-Manufacturing employment index also showed a small increase to 50.9 in July from 49.7 in June. This is the highest figure we have seen for this cycle and argues for a gradually improving private sector payroll number.

ISM Non-Manufacturing Employment Index (last obs. July 2010)



Source: ISM; Encima Global

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