

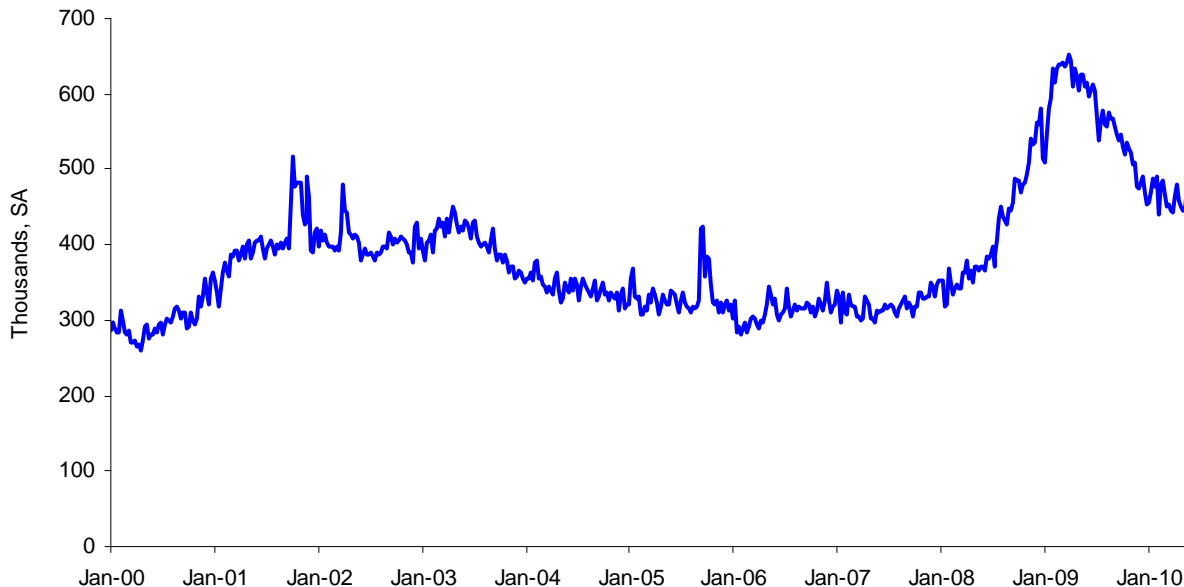
June 3, 2010

Strong Job Growth Likely, Led by Government Hiring

We expect a strong job growth number for May in tomorrow's release, but much of it will be due to federal census hiring. The still-high level of jobless claims, ADP data and consensus estimates all point to relatively weak private sector job growth. Small businesses are still under 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 to aid GDP and consumption, but not enough to feel robust. At the end of April, unemployment was 15.3 million with another 3.6 million discouraged and marginally attached.

- Today's initial jobless claims data were roughly unchanged at 453,000 for the week ending March 29. They declined steadily from the March 2009 peak of 651,000 but have stalled at the four-week average rate of 459,000. This is still as bad as any part of the 2001 recession.

Initial Unemployment Claims (last obs. May 29, 2010)

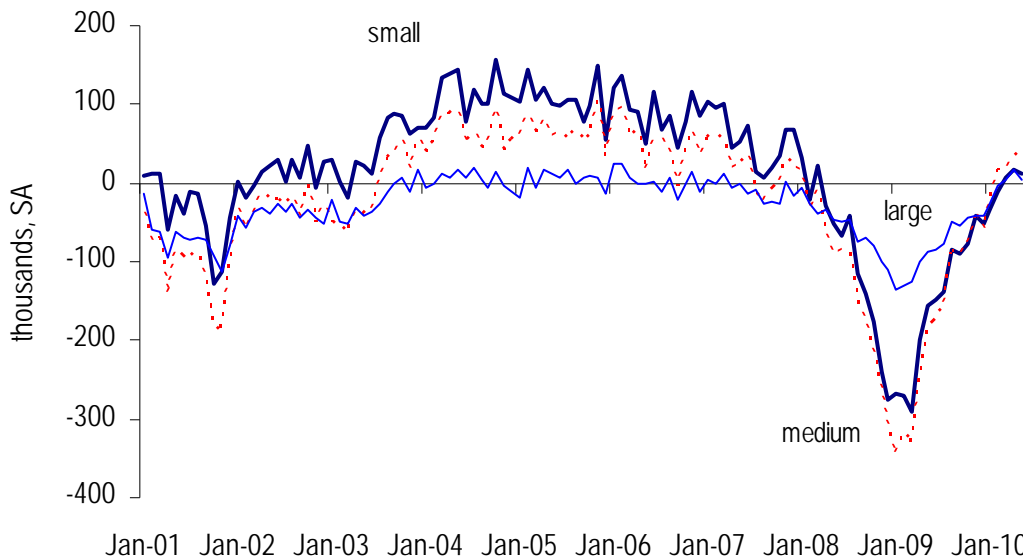


Source: Bureau of Labor Statistics; Encima Global

The payroll data for May (due June 4) is likely to show an increase in jobs largely due to census hiring. The ADP data suggests that private job growth will be moderate.

- The June 3 ADP data showed only 55,000 private sector job gains in May. There's been a general improvement since March 2009, but job growth at small businesses remains weak.
- For the month of May, small businesses (with less than 50 employees) added 13,000 jobs. Medium sized businesses (with between 50 to 499 employees) added 39,000 jobs. Large companies (with over 500 employees) added only 3,000 jobs. With the revision of April's data the last three months have shown the same pattern where medium sized businesses added the most employees averaging 30,000, small businesses added an average of 13,000 and large companies added an average of 8,000.
- Over the last six months, the private sector payroll data has been higher than ADP, averaging 122,000 more private sector job gains. This argues for somewhat bigger private sector job growth in tomorrow's establishment survey, say a gain of 175,000, versus today's ADP data showing a 55,000 gain.

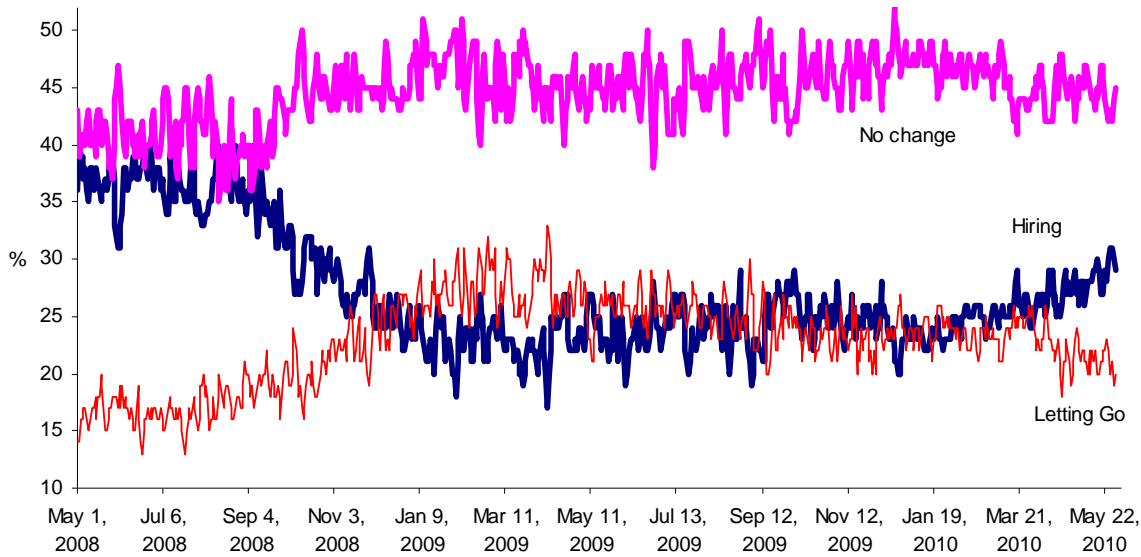
ADP Job Gains by Firm Size (last obs. May 2010)



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.

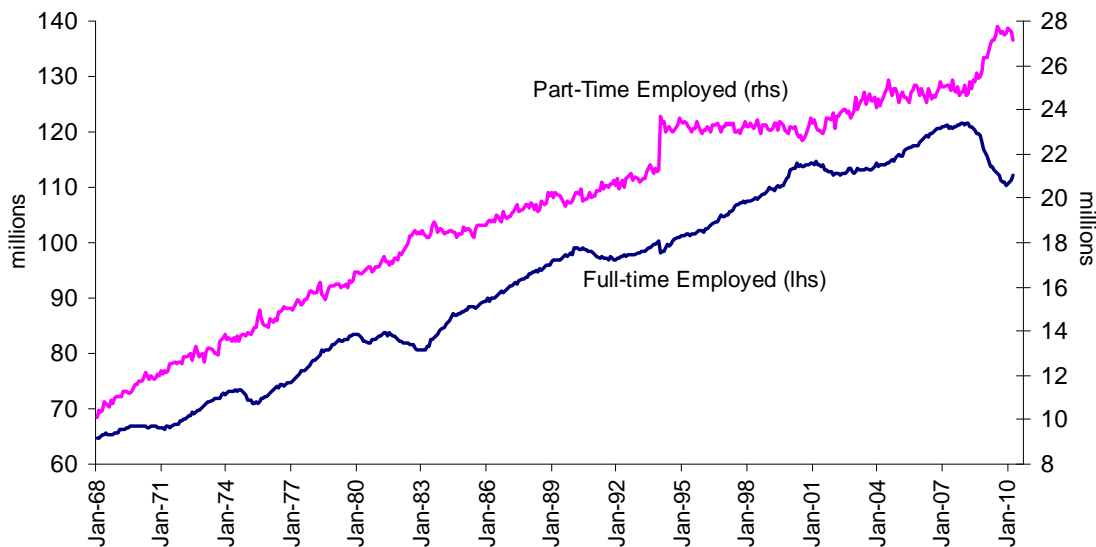
Gallup Daily Jobs Poll (last obs. June 1, 2010)



Source: Gallup Poll; Encima Global

- There has been a substantial shift toward part-time employment helping explain the sense of weakness in the labor environment.

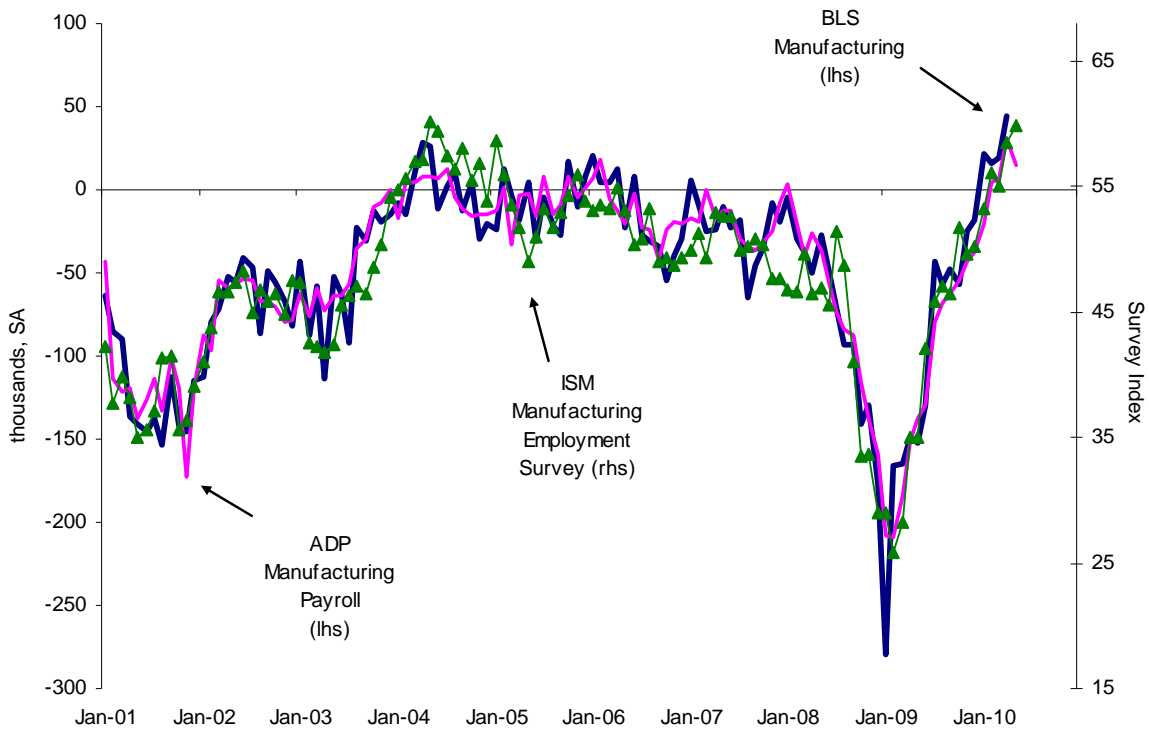
Part-time and Full-time Employed (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

Three major data sources are providing information on manufacturing jobs. While ISM manufacturing data declined slightly in May from April very high level, the manufacturing employment diffusion index showed an increase to 59.8 in May from 58.5 in April. ADP manufacturing payrolls showed a small increase in manufacturing jobs of 15,000 in May. Over the last six months, manufacturing payrolls in the establishment survey have been better than ADP data by an average of 19,000. This suggests that the establishment survey may show manufacturing jobs increased 35,000 in May (which is the Bloomberg consensus).

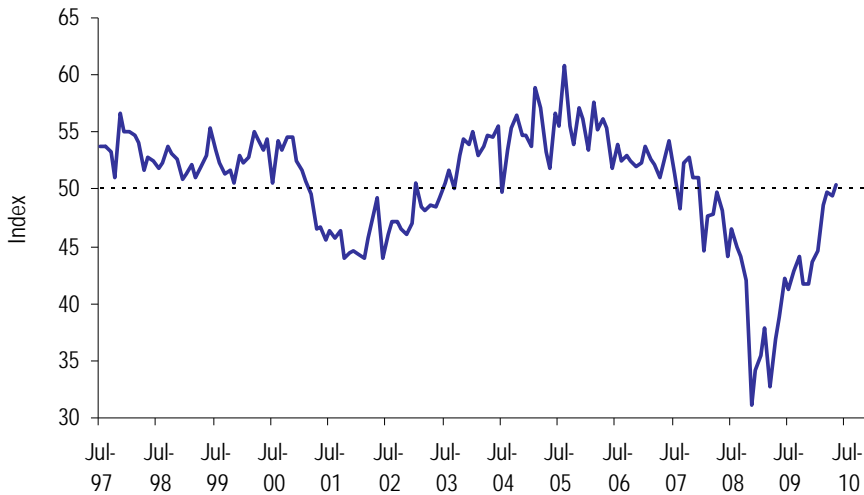
**Manufacturing Employment from BLS; ISM and ADP
(last obs. ISM and ADP May 2010; BLS April 2010)**



Source: BLS; ISM; ADP; Encima Global

- The ISM Non-Manufacturing employment index also showed a small increase to 50.4 in May from 49.5 in April. This was the first report above 50 since December 2007.

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



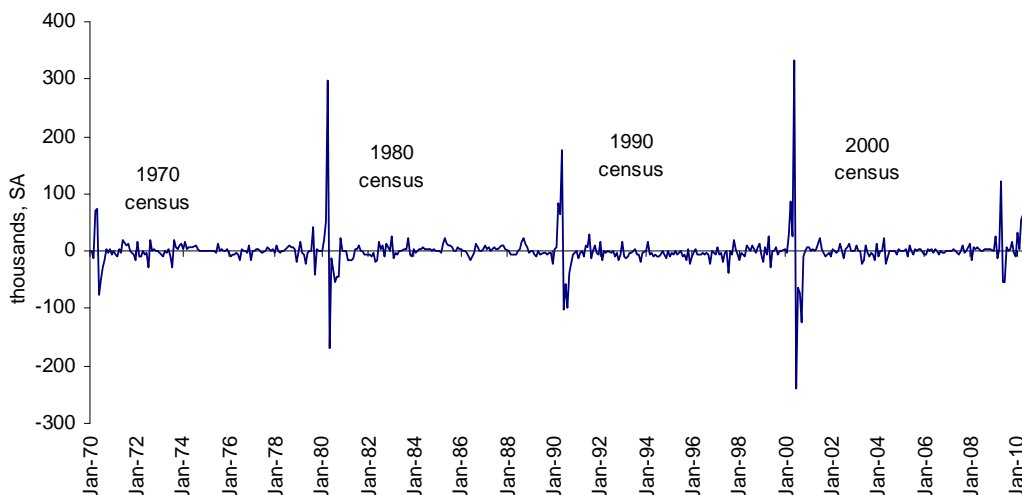
Source: ISM; Encima Global

Growth in Government Employment

Census hiring is expected to peak this month and should temporarily lower jobless claims and unemployment. For some workers, this will create new eligibility for unemployment benefits after the census, suggesting there may be a second hump in continuing claims in the second half of 2010 (though it shouldn't be nearly as high as the earlier peaks.)

- Even the 2009 preparation for the census caused a spike in Federal payroll growth (second-from-the-right blip in the graph). The 2010 census is expected to be by far the biggest and costliest ever, causing a material increase in national employment (and adding to the federal deficit).

Federal Payroll Growth m/m change (last obs. April 2010)



Source: Bureau of Labor Statistics; Encima Global

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