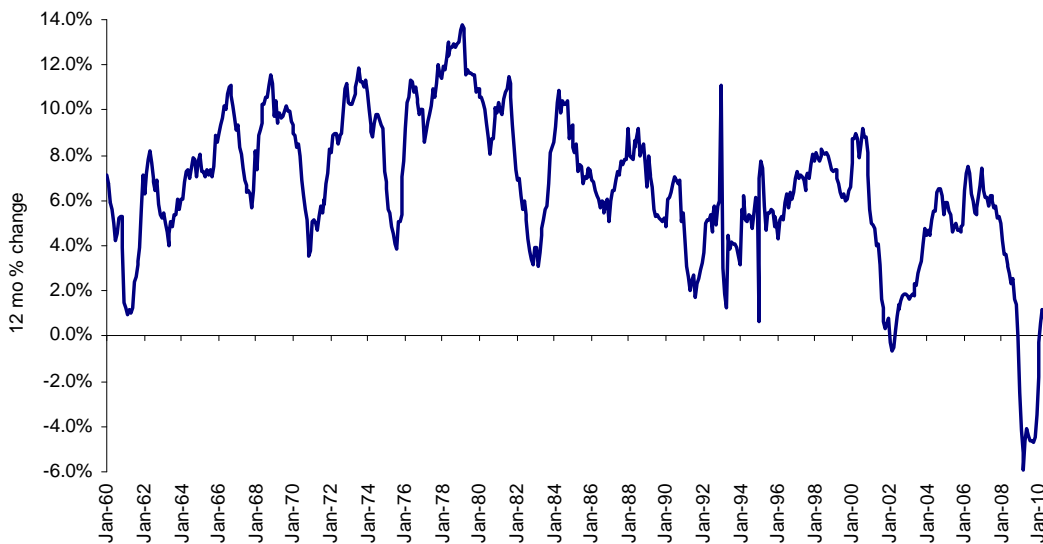


Gradual Recovery Should Begin to Show Up in Jobs

We think the gradual recovery underway from the mid-year soft patch will begin to show up in jobs in both the establishment and household surveys. The high ISM readings plus rising auto sales suggest gains in manufacturing jobs. This should at least temporarily overcome the weakness in labor income, up only 2% nominal year-over-year due to government policies discouraging small business hiring.

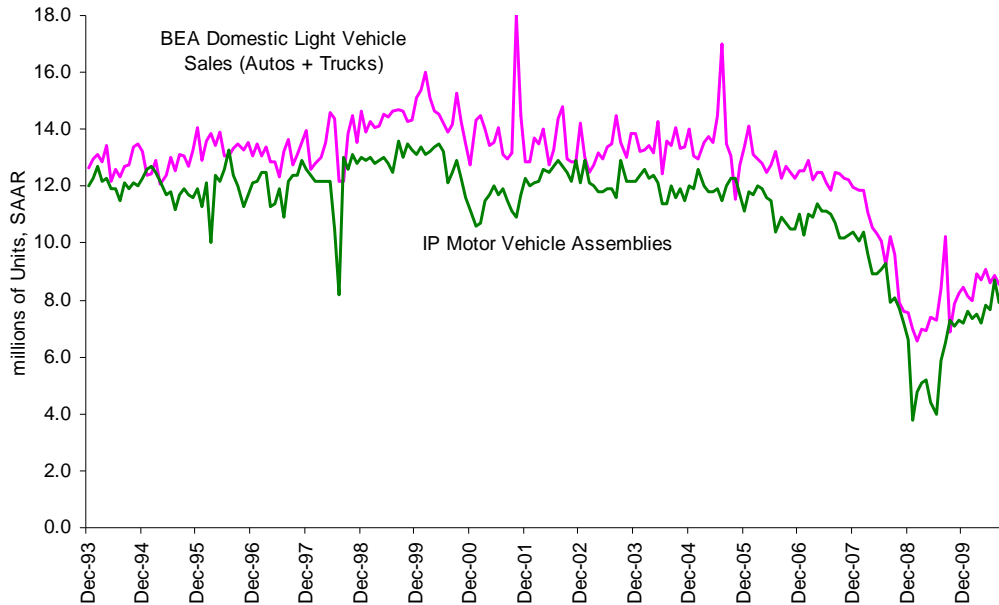
Wages and Salaries Y/Y (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

- We expect a further gradual improvement in employment data in November and December as auto sales increase and the risk of higher taxes in 2011 adds to December cash flows (the amount depends on the timing and outcome of tax negotiations.)

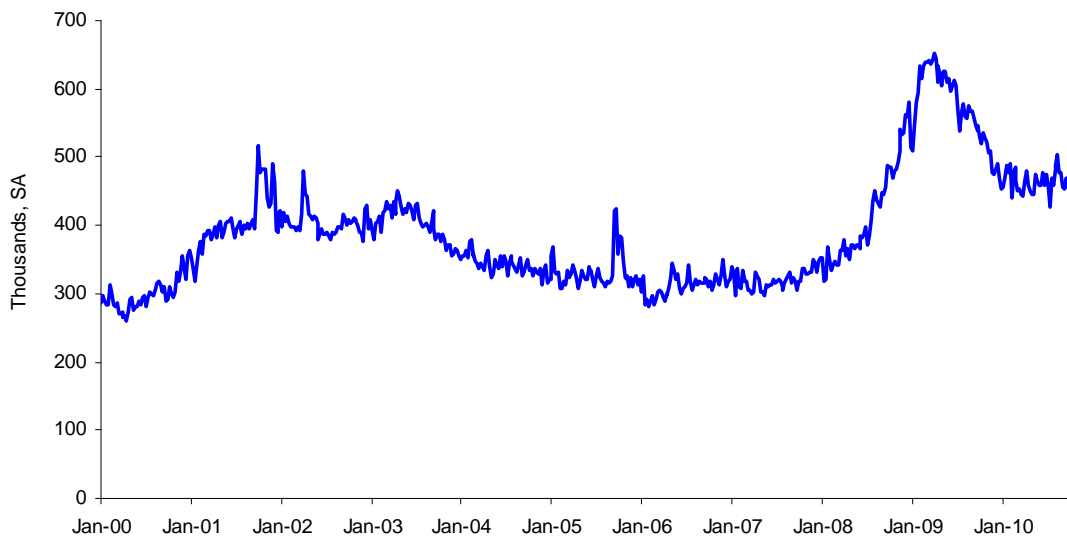
Auto Sales and Production (last obs. sales October 2010; production September 2010)



Source: BEA; Federal Reserve Board; Encima Global

- Initial jobless claims have been one of the best and most timely indicators of the severity of the recession and the softness of the recovery. Initial claims declined steadily after the March 2009 peak of 651,000 but have stalled, with the four-week average at 456,000, still as bad as any part of the 2001 recession.

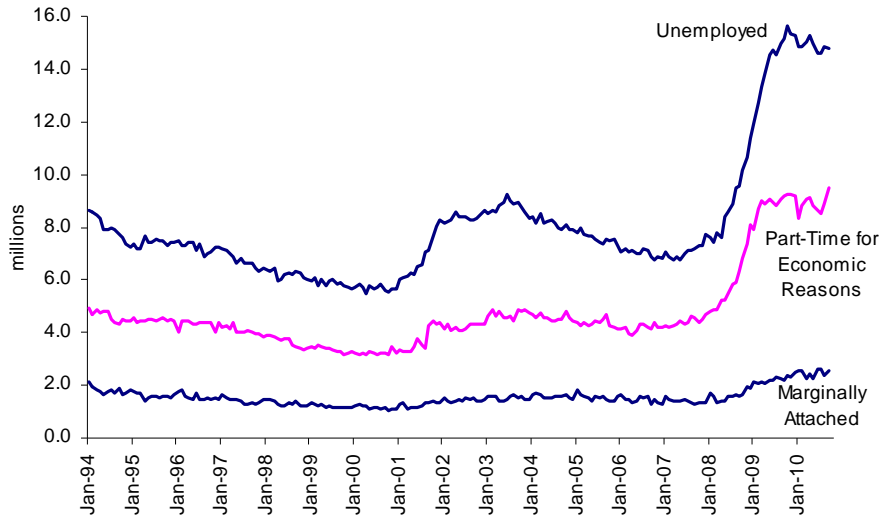
Initial Unemployment Claims (last obs. October 30, 2010)



Source: Bureau of Labor Statistics; Encima Global

- While the number unemployed (14.8 million in September) has been trending downward from the 15.6 million peak in October 2009, most of the decline is accounted for people dropping out of the labor force and the increase in people who took part-time jobs but would like full-time jobs. Part-time for economic reasons rose to a new high last month at 9.5 million. Similarly marginally attached worker (aren't searching but have searched in the last 12 months) are near their cycle peak at 2.5 million.

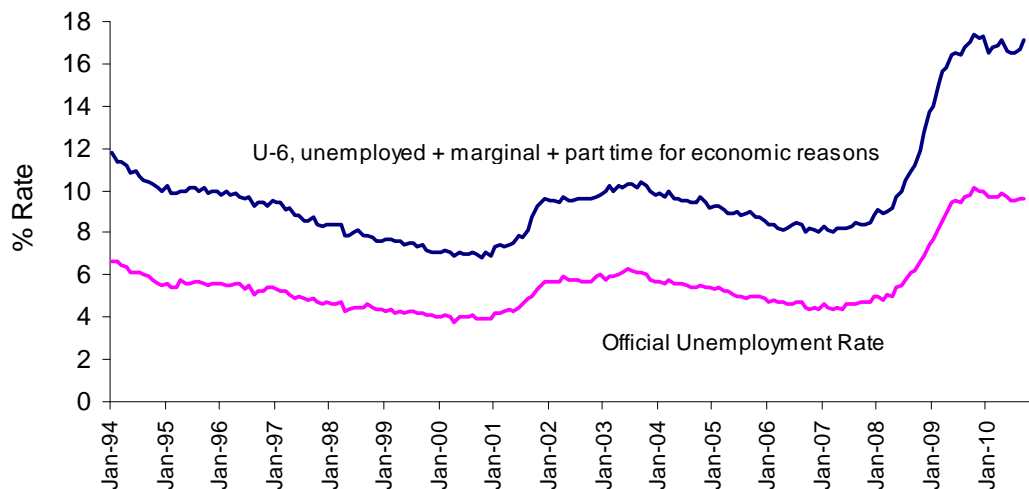
Worse than the Number of Unemployed (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

- While the unemployment rate was down to 9.6% in September from 9.8% in September 2009, the underemployment rate that encompasses marginal and part-time workers went up year-over-year (to 17.1% in September from 17% in September 2009.)

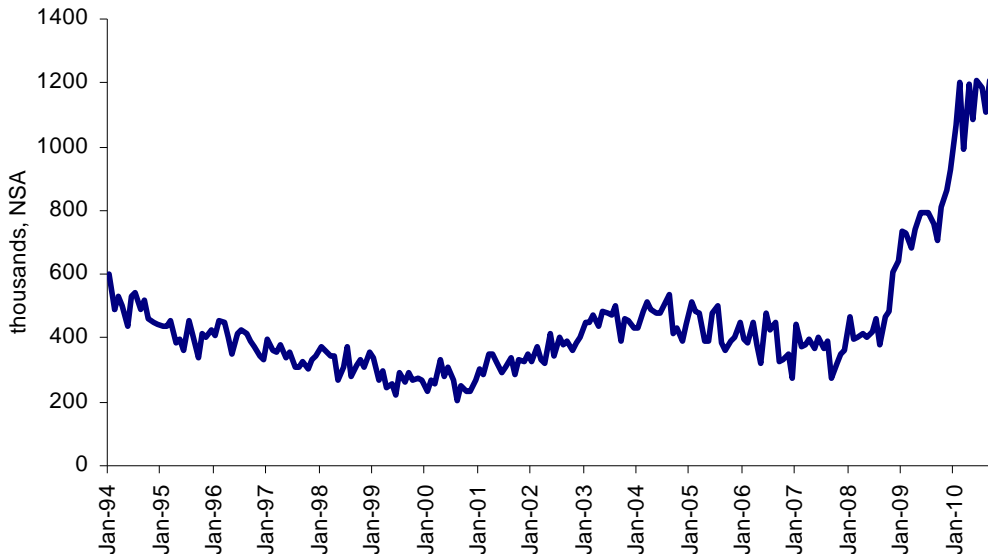
Unemployment and Underemployment Rate (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

- A subcategory of marginally attached workers, “discouraged workers” who think there is no work available, rose to a new high in September at 1.2 million.

Discouraged Workers (last obs. September 2010)



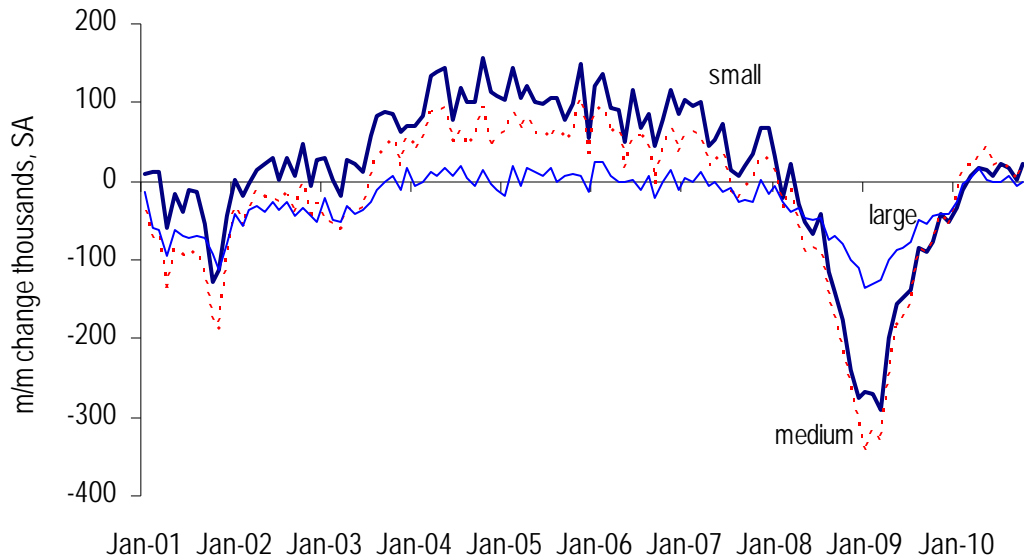
Source: Bureau of Labor Statistics; Encima Global

ADP Shows Some Improvement

The ADP data released Wednesday showed a gain of 43,000 private sector jobs in October. There has been a general improvement since March 2009, though job growth has remained weaker than in previous recoveries, particularly for small businesses. Over the last six months, payroll data from BLS has been stronger than ADP by roughly 66,000.

- Using ADP’s data on small, medium and large companies to project BLS job growth suggests a gain of 89,000 private sector payroll jobs in tomorrow’s BLS release (the Bloomberg consensus is a gain of 80,000.)

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



Source: ADP; Encima Global

- The census released almost all of its remaining temporary workers in September so federal layoffs should not be a significant factor in the October payroll data. State and local governments have accelerated their pace of payroll reductions over the last year. Over the last three months they lost 54,000 workers per month on average.

State and Local Governments Payrolls m/m (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

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