

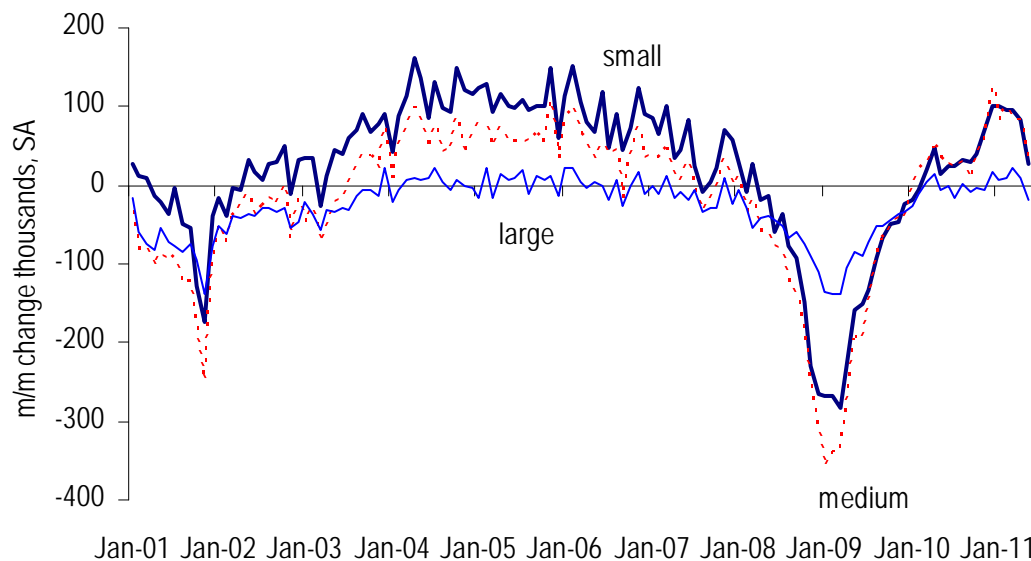
June 1, 2011

Weak ADP and ISM Data: Employment Preview

The May ADP employment calculation based on its customers showed a total private sector job gain of 38,000 jobs. This was well below the 175,000 average of the 37 economists in the Bloomberg consensus (estimates ranged from 129,000 to 200,000.)

- Services added 48,000 in May while manufacturing jobs shrank by 9,000 after adding an average 25,000 per month in February through April.
- Small businesses added 27,000 jobs in May and medium sized businesses 30,000. Small and medium-sized businesses had been adding about 95,000 jobs per month from December to April. Large businesses lost 19,000 jobs in May after adding some in previous months.

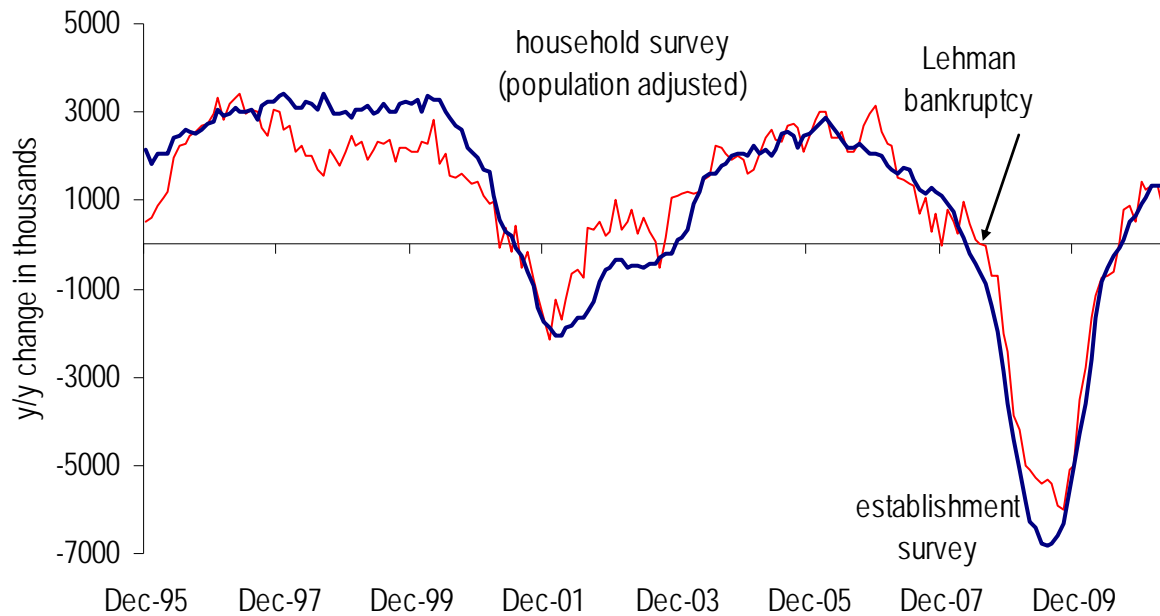
ADP Employment m/m (last obs. May 2011)



Source: ADP; Encima Global

- Looking toward Friday's establishment and household surveys from the Labor Department, ADP hasn't been a good month-by-month predictor but has given a good reading of the trends in private sector and small business job growth.

Annual Growth in Employment (last obs. April 2011)



Source: Bureau of Labor Statistics; Encima Global

- We expect the ADP data to materially drag down the consensus expectation for Friday's establishment survey, which currently stands at 175,000 on Bloomberg including a few (lowered) June 1 forecasts. In the establishment survey, we look for 100,000 private sector job gains and 10,000 losses in government jobs, with the unemployment rate rising to 9.1% from 9% in April.
- For the five months from December to April, both the ADP and establishment private sector survey showed a gain of 1.0 million jobs and the household survey showed a gain of 1.2 million jobs.

Employment Growth m/m (in 000s, last obs. May 2011 for ADP, April 2011 for others)

	ADP	Establishment Private Payrolls	Households Survey
April 2010	113	229	425
May 2010	42	48	-33
June 2010	50	65	-263
July 2010	31	93	-105
August 2010	63	110	272
September 2010	32	109	107
October 2010	79	143	-297
November 2010	122	128	-178
December 2010	246	167	293
January 2011	190	94	589
February 2011	205	261	250
March 2011	203	231	291
April 2011	177	268	-190
May 2011	38		

Source: ADP; Bureau of Labor Statistics; Encima Global

- Weekly initial jobless claims rose from the 390,000 range in March to a 430,000 average in recent weeks, partly related to early auto production shutdowns that feed directly into claims. Relative to total employment, jobless claims are at a similar percentage to the early phases of the expansions in the 1990s and 2000s and are below the ratio of claims to jobs in the 1980s expansion. We think we're at the phase of this expansion where job growth itself matters most as measured in the average gains in the household survey (which includes small businesses.)

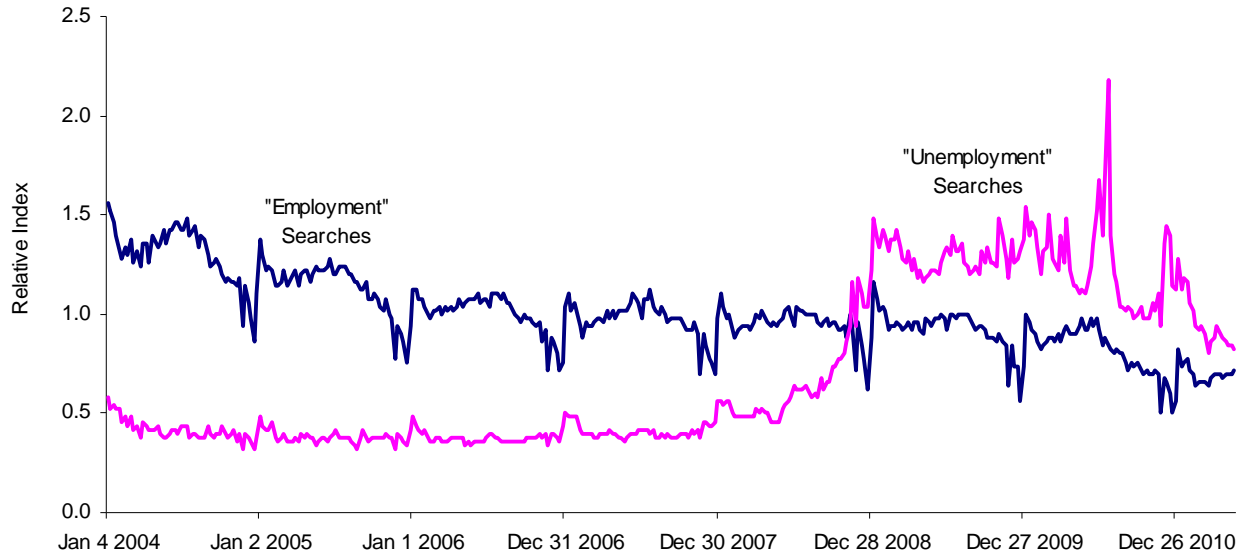
Initial Unemployment Claims as a % of total employment (last obs. May 17, 2011)



Source: Department of Labor; Bureau of Labor Statistics; Encima Global

Google searches on unemployment are volatile, but have been trending downward since the 2010 peak.

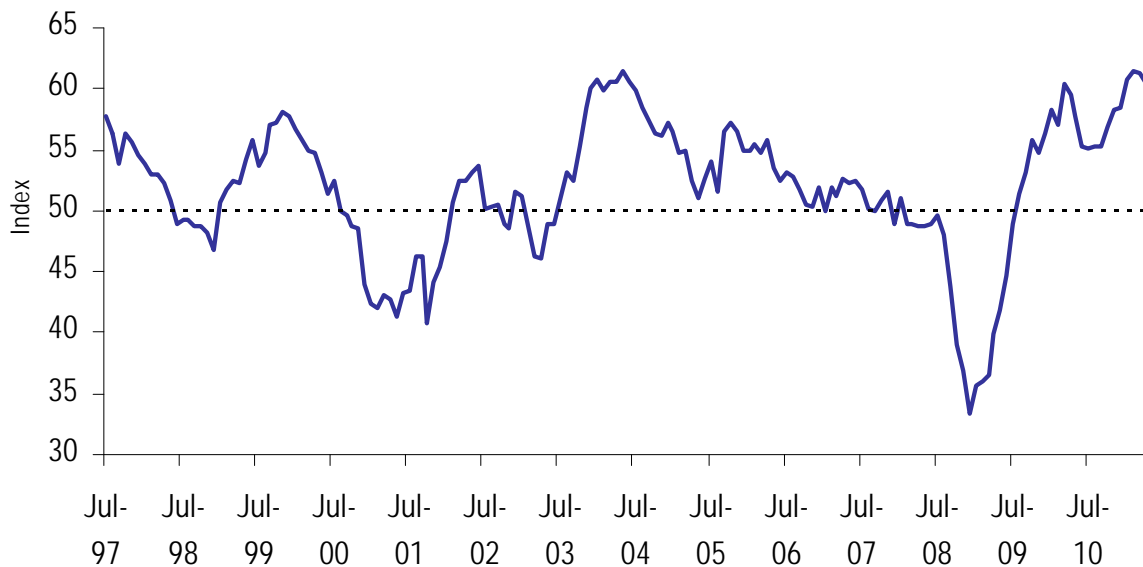
Google Searches for "Unemployment" (last obs. May 31, 2011)



Source: Google; Encima Global

The overall ISM manufacturing survey fell to 53.5 in May from 60.4 in April. This is larger than the ISM drop during the 2010 soft patch but is partly explained by the auto production slump.

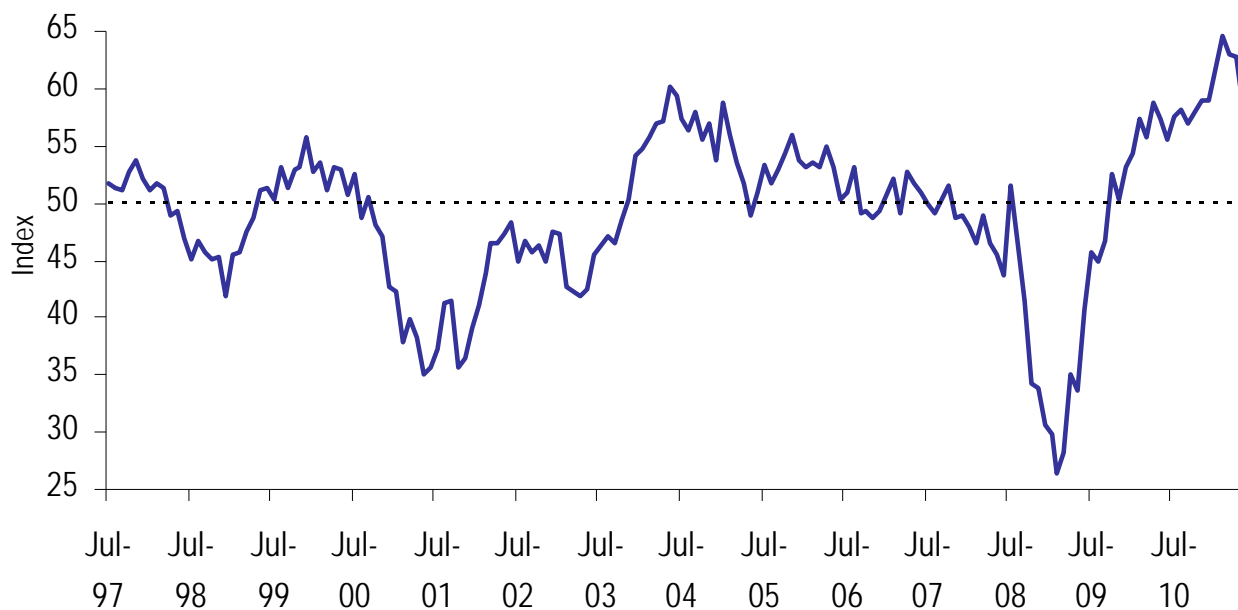
ISM Manufacturing (last obs. May 2011)



Source: Institute for Supply Management; Encima Global

- The ISM manufacturing employment survey fell to 58.2 in May from 62.7 in April and a high of 64.5 in February. Even with the letdown, manufacturing is showing stronger employment readings than in the 1990s and 2000s expansions. We think manufacturing employment will show weakness in the May establishment survey on Friday but will improve with auto production in the remainder of 2011.

ISM Manufacturing Employment (last obs. May 2011)



Source: Institute for Supply Management; Encima Global

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