

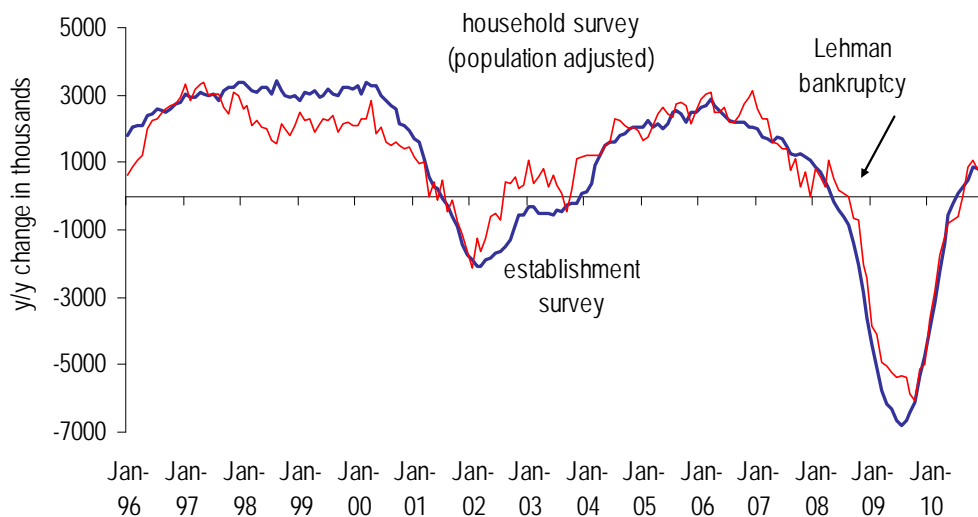
December 3, 2010

Weak Job Gains at Establishments and Job Losses at Households

November job growth was a disappointing 39,000 in the establishment survey after a strong October gain. The household survey showed a decline of 173,000 after a 330,000 loss in October. Unemployment rose to 9.8%.

- **We think most of the disappointing data reflects the actual weakness in the small and new business side of the economy.** It is burdened by the risk of higher tax rates, the bank credit freeze imposed on small and new businesses by Washington regulators, the plethora of complex new government regulations and mandates that require an economy-of-scale to comply, and the ongoing transfer of American capital to Asia due to the weak-dollar policy and U.S. structural deterioration.
- Twelve-month gains in the establishment survey are 842,000 after 5.3 million losses in the previous twelve months. The household survey shows 750,000 gains in the twelve months through November versus 5.1 million losses in the previous twelve months.

Annual Changes in Employment (last obs. November 2010)

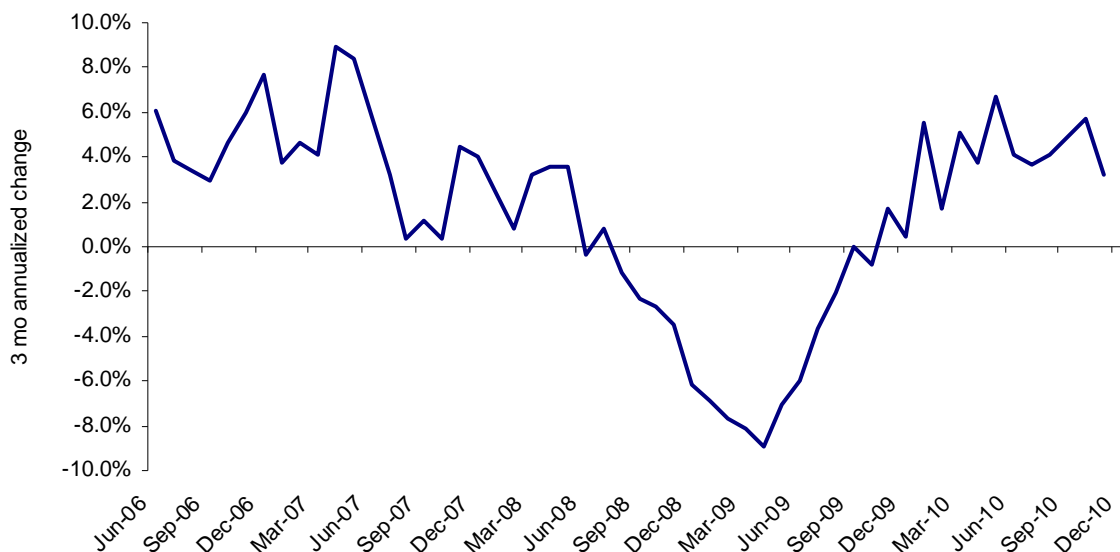


Source: Bureau of Labor Statistics; Encima Global

- We don't put much emphasize on the monthly consensus forecasts (which expected a 150,000 gain vs the 39,000 actual.) The sample sizes in the two surveys are small relative to employment so the confidence interval on any one month's data is wide.

- There was a 21,000 upward revision to the already strong October figure. **Smoothing the two months shows an average monthly gain of 106,000 in the establishment data, but an average monthly loss of 252,000 in the October-November household survey (reflecting small-business weakness).**
- On a non-seasonally adjusted basis, the establishment survey gain was 217,000 in November and 966,000 in October, meaning there was strong hiring going on, just not as strong as in a normal Christmas season. The establishment survey adds a birth-death assumption to adjust for net new businesses, but this was not consequential in November – the adjustment subtracted 8,000 jobs in the non-seasonally adjusted gain of 217,000.
- Aggregate weekly payrolls (the product of hours, earnings and employment) slowed to a 3.2% annualized rate for the three months ending in November from a 5.7% rate in October. That’s a nominal indicator and is weaker than our expectation of 3.5% real GDP growth for Q4.

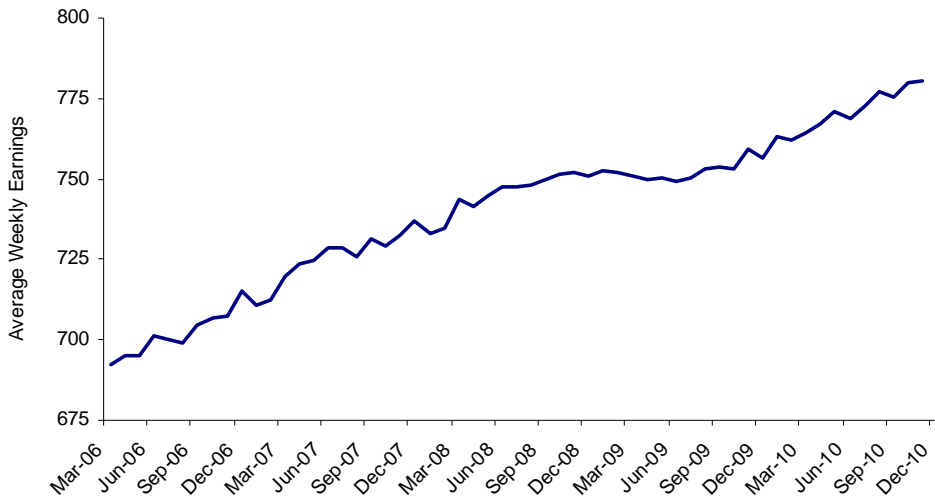
Aggregate Weekly Payrolls index 3 mo annualized (last obs. November 2010)



Source: Bureau of Labor Statistics; Encima Global

- Average weekly earnings grew to \$780.33 in November, up a mere \$0.35 from October. Weekly earnings have risen only 2.8% since November 2009 (versus the 4.5% nominal GDP growth rate.) Average hourly pay rose to \$22.75 in November from \$22.74 in October and \$22.65 in August.

Average Weekly Earnings (last obs. November 2010)



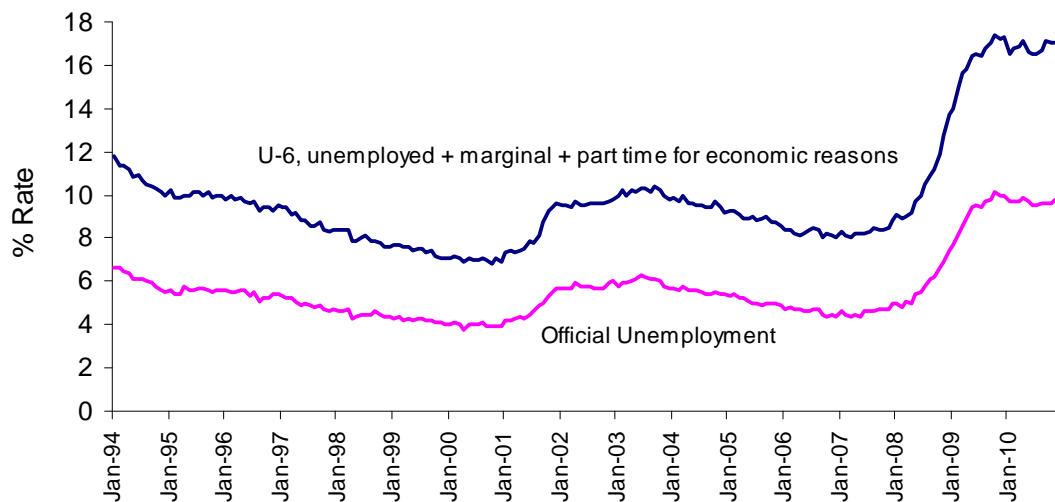
Source: Bureau of Labor Statistics; Encima Global

Unemployment rises to 9.8%; Underemployment steady at 17.0%

Per the household survey, the number unemployed in November rose 276,000 to 15.1 million, while the civilian labor force rose 103,000. Another 9.0 million want full-time employment but are working part-time for economic reasons; and 5.8 million persons would like a job but are not actively looking. Of the latter category, 2.5 million have looked at some point in the last year (called marginally attached and included in U6 unemployment). Of those, 1.28 million, a new high, say they are “discouraged and think there’s no work available.”

- U6 unemployment stayed at 26.6 million (17%) in November (15.1M plus 9M plus 2.5M), down slightly from the high of 27.2M in October 2009.

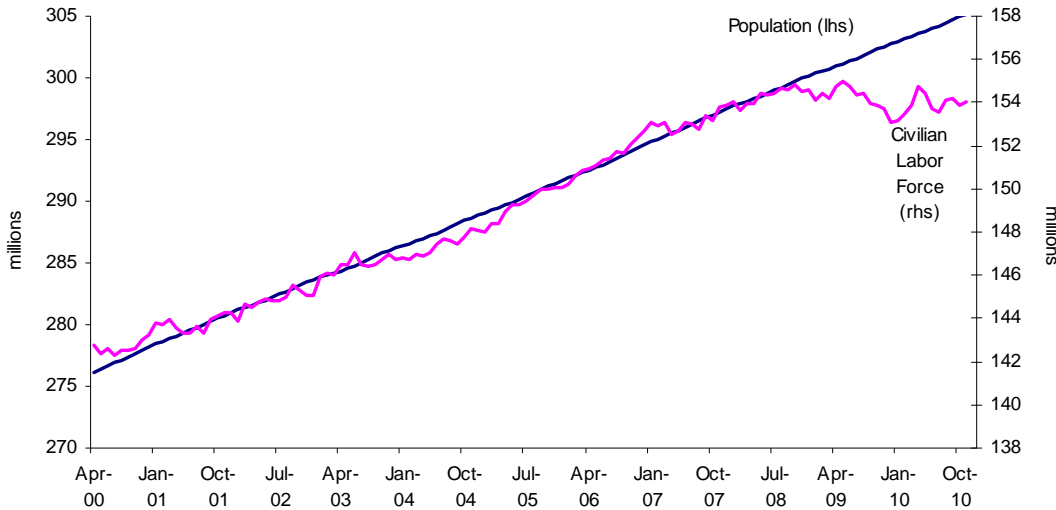
Unemployment Rates (last obs. November 2010)



Source: Bureau of Labor Statistics; Encima Global

- We expect the economy to grow enough to start producing somewhat faster gains in overall employment, but the labor force should also grow leaving the unemployment rate very high. In effect, there's an overhang of workers waiting for better labor conditions to reenter the labor force.

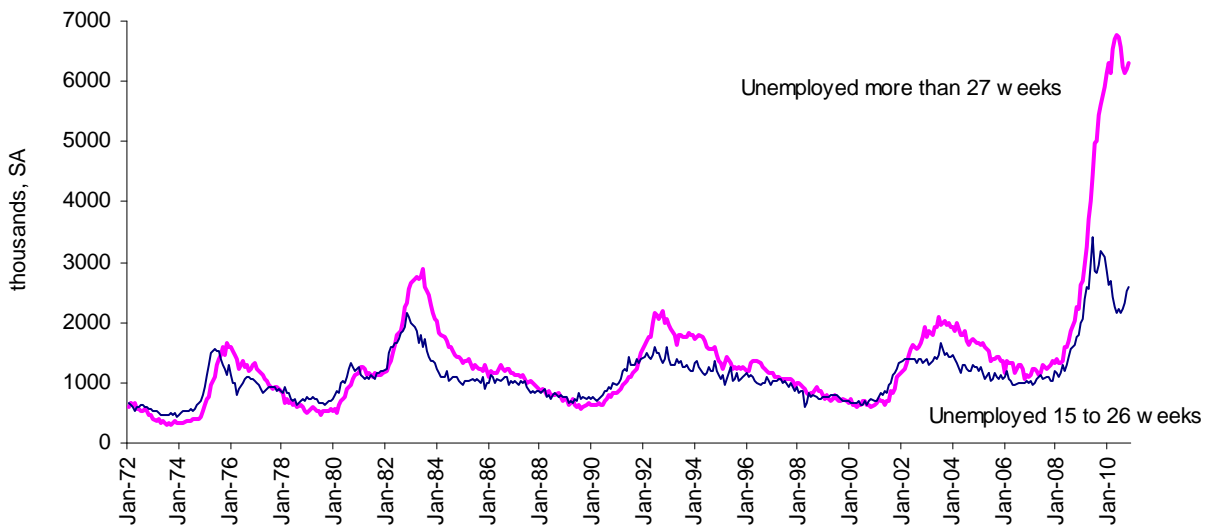
Population and the Civilian Labor Force (last obs. November 2010)



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

- One major risk facing the economy is the difficulty the long-term unemployed have in getting back to work. There are now 6.3 million workers unemployed for more than 27 weeks (peak was 6.8M in May). The number of unemployed between 15 and 26 weeks stands at 2.6 million and below the peak of 3.4 million in June 2009.

Unemployed Longer than 27 weeks (last obs. November 2010)



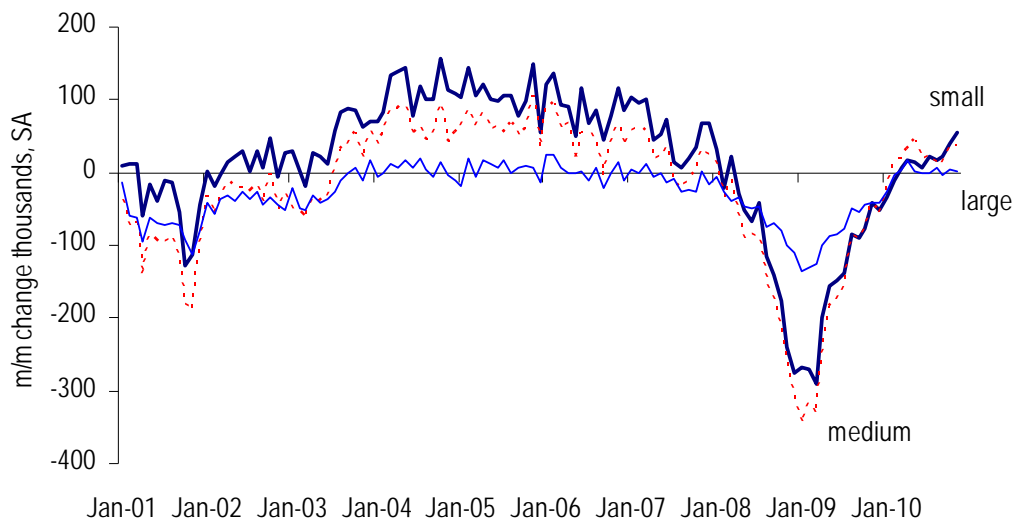
Source: Census Bureau; Bureau of Labor Statistics; Encima Global

Private Sector Jobs

The survey of established businesses showed private sector job gains of 50,000, which was well below the consensus expectation of 160,000 and much weaker than the ADP survey had suggested.

- The ADP data released Wednesday showed a gain of 93,000 private sector jobs in November. Part of the difference is catch-up – on average, ADP had been running 60,000 weaker than the establishment survey’s private sector data. Part is probably the mix of companies in ADP’s data base. It includes expansion-minded small businesses but not the lack of start-ups showing up in the weak household survey.
- In ADP’s Wednesday survey report, small companies (1 to 49 employees) added 54,000 jobs in November after 40,000 in October. This is the first time in this cycle we have seen small businesses show two consecutive months of gains above 25,000. Medium sized companies (50 to 499) added 37,000 jobs in November after 38,000 in October. Large companies (more than 500), which are not picked up as well in the ADP survey added 2,000 jobs in November.

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



Source: ADP; Encima Global

We expect a gradual improvement in employment in December:

- 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. The four week average of initial claims declined to 431,000, having fallen steadily for the last four weeks after stalling for a year in the 450,000 area.

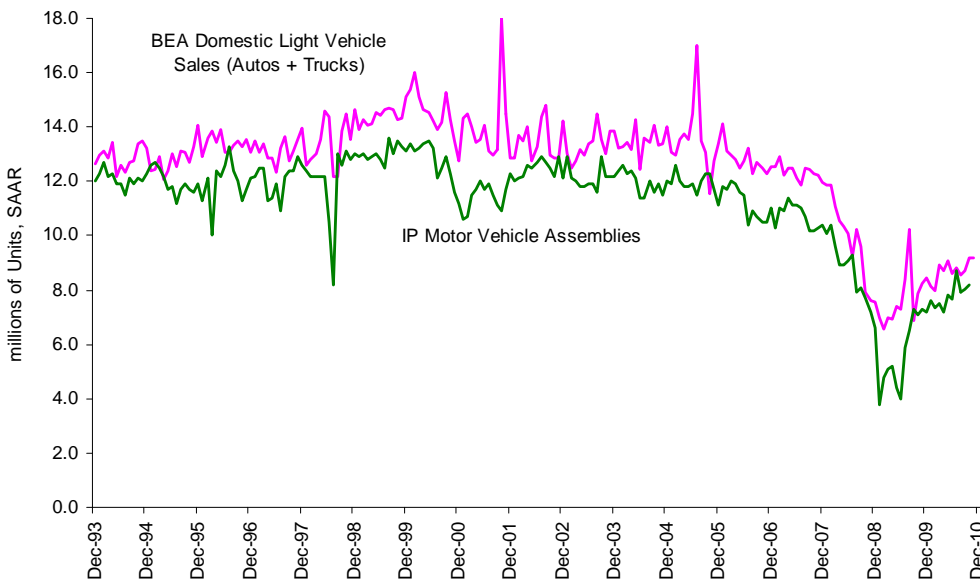
Initial Unemployment Claims – 4 week average (last obs. November 27, 2010)



Source: Bureau of Labor Statistics; Encima Global

- Auto sales were an above-expectation 12.26 million annual rate in November (9.27M sales of domestic-produced vehicles). Production has been rising accordingly.

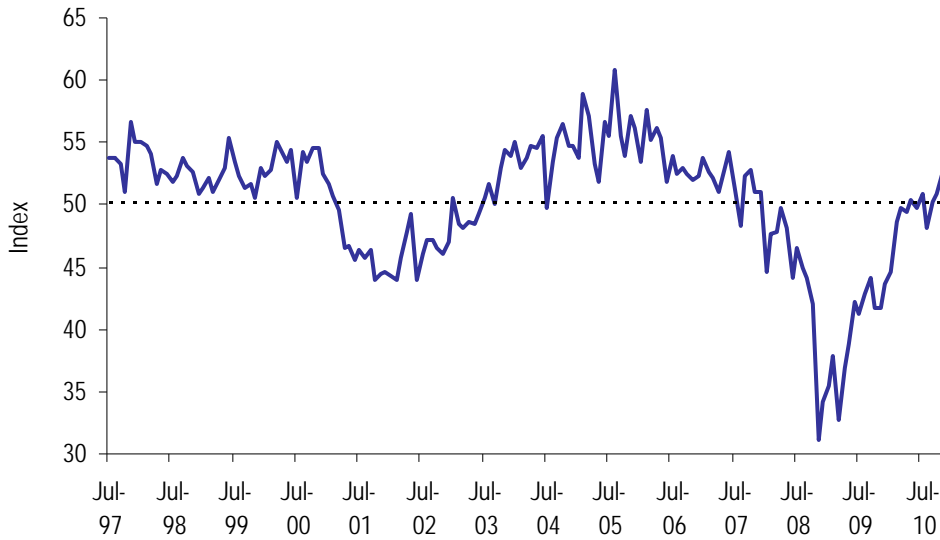
Auto Sales and Production (last obs. sales November 2010, production October 2010)



Source: BEA; Federal Reserve Board; Encima Global

- ISM nonmanufacturing employment came in at 52.7 in November, suggesting future employment gains.

ISM Nonmanufacturing Employment (last obs. November 2010)



Source: ISM; Encima Global

- ISM manufacturing employment came in at 57.5 in November and has stayed above 50 since December 2009.

ISM Manufacturing Employment (last obs. November 2010)



Source: ISM; Encima Global

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