

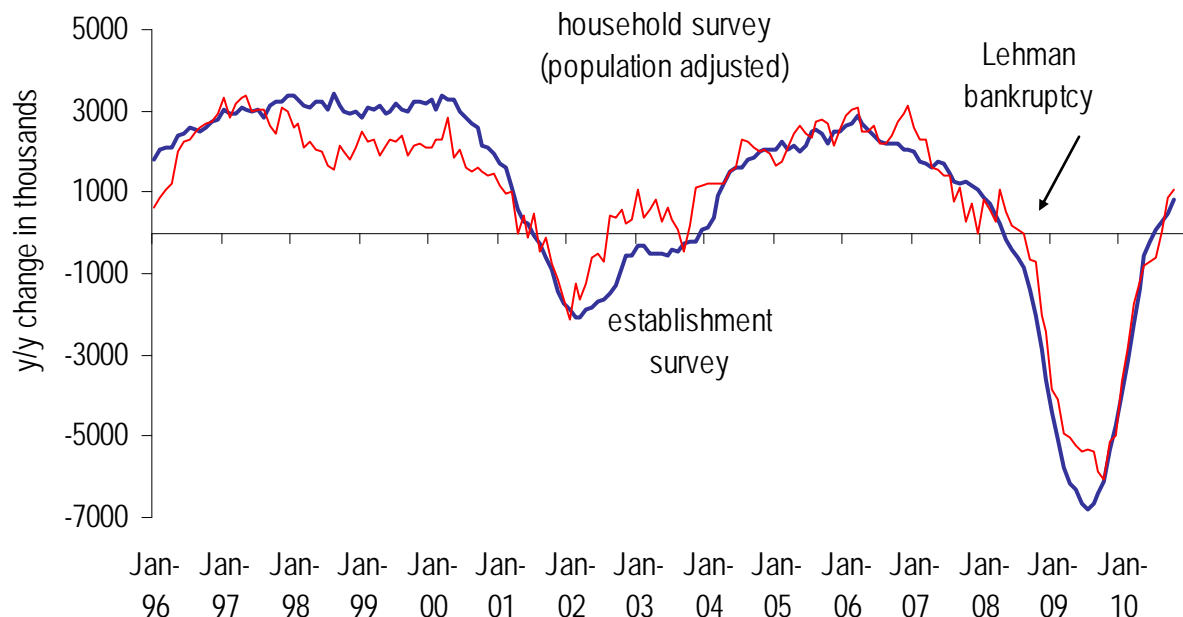
November 5, 2010

# Good Job Gains at Establishments, but Losses for Households

Today's employment report was consistent with a gradual recovery strengthening into year-end but with weakness in small business hiring. We maintain our 3.5% GDP expectation for fourth quarter growth, with a focus on the details of the tax increase negotiations in Congress.

- Establishment survey payrolls rose 151,000 in October with upward revisions to August and September totaling 110,000. This brings twelve-month gains to 829,000 after 6.1 million losses in the previous twelve months.
- In contrast, the household survey, which better reflects small business activity, showed a decline in employment of 330,000 in October with 1.06 million gains in the twelve months through October versus 6.05 million losses in the previous twelve months.
- Unemployment stayed at 9.6% in October as the civilian labor force shrank 254,000 to offset the decline in employment

## Annual Changes in Employment (last obs. October 2010)



Source: Bureau of Labor Statistics; Encima Global

- In the 2002-2003 recovery, the household survey led the establishment survey as small businesses hired early in the recovery in response to banks leveraging up and the

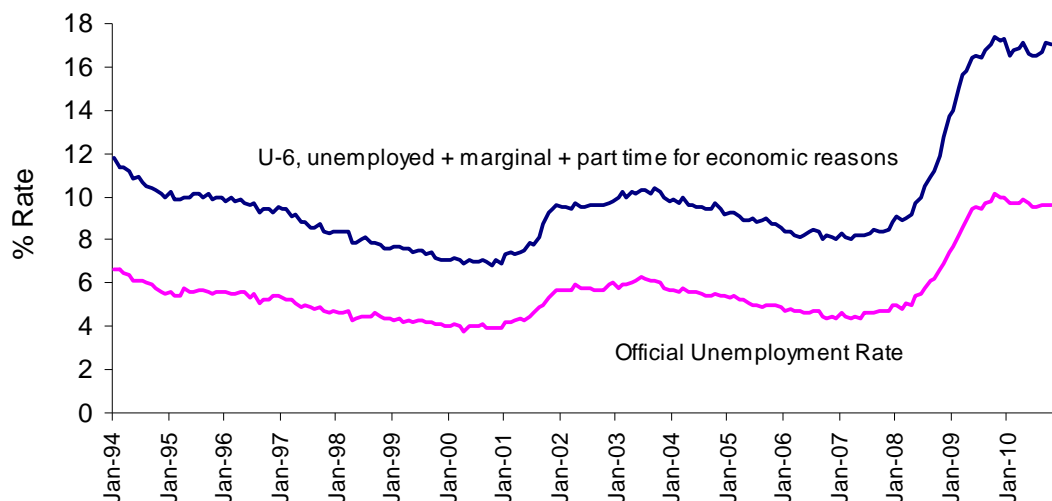
prospect of tax cuts (higher after-tax profits). In both the ADP and household surveys, the current recovery shows a weaker hiring environment for new businesses.

- We're skeptical of the jobs value of the Fed's next round of quantitative easing. To accomplish quantitative easing, the Fed borrows from banks in order to buy bonds. It's very profitable for the Fed and lowers some bond yields below where they would otherwise be, but at the expense of other lending. We also note the heavy burden of tax and regulatory uncertainty on smaller businesses.
- The household sector survey asks people whether they are working whereas the establishment survey asks employers how many employees they have. The establishment survey focuses on existing businesses rather than the new businesses that create most of the net job growth and are reflected in the household survey. The establishment survey adds a birth-death assumption to adjust for net new businesses. For October, this birth-death adjustment added 61,000 jobs to the non-seasonally adjusted gain of 919,000.

### Unemployment 9.6%; Underemployment 17%

- At the end of October, unemployment was 14.8 million with another 9.2 million who want full-time employment but are working part-time for economic reasons; and 5.9 million persons who would like a job but are not actively looking. Of the latter category, 2.6 million have looked at some point in the last year (called marginally attached and included in U6 unemployment), of whom 1.22 million, a new high, say they are "discouraged and think there's no work available."
- U6 unemployment fell to 26.6 million in October from 26.8 million in September, down from a high of 27.2 in October 2009. The U6 rate fell to 17.0% in October from 17.1% in September. 6.2 million workers have been unemployed more than 27 weeks.

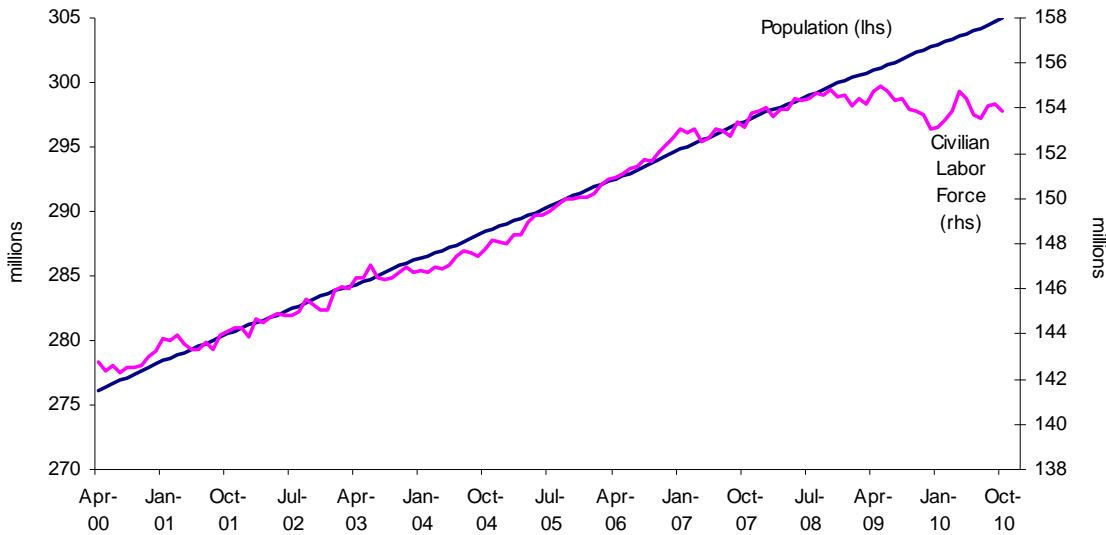
### Unemployment Rates (last obs. October 2010)



Source: Bureau of Labor Statistics; Encima Global

- We expect the economy to grow enough to start producing more 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. October 2010)



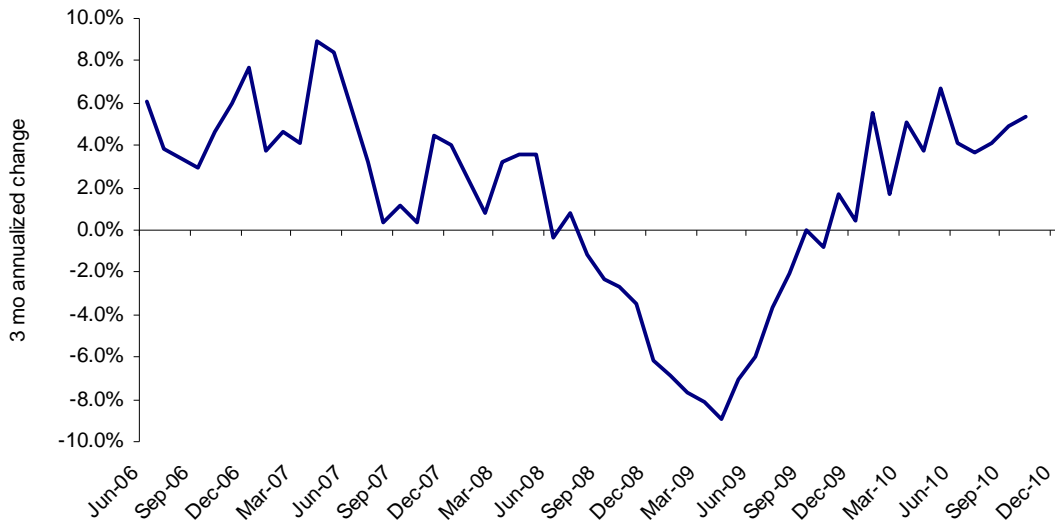
Source: Census Bureau; Bureau of Labor Statistics; Encima Global

## Private Sector Job Gains

The survey of established businesses showed private sector job gains of 159,000, which was above the consensus expectation of 80,000 and stronger than the ADP survey and jobless claims earlier in the week had suggested.

- Hourly pay rose to \$22.73 in October, up from \$22.59 in July, helping aggregate weekly payrolls (the product of hours, earnings and employment) expand 5.3% annualized for the three months ending in October. That's a nominal indicator and is consistent with our expectation of 3.5% real GDP growth.

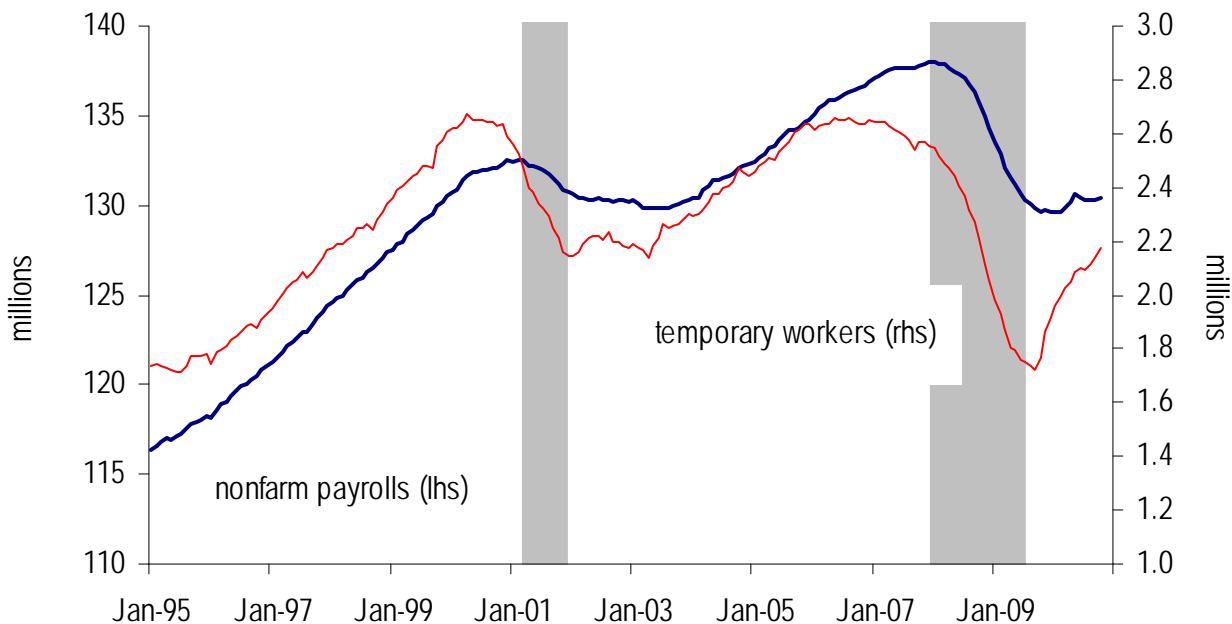
## Aggregate Weekly Payrolls index 3 mo annualized (last obs. October 2010)



Source: Bureau of Labor Statistics; Encima Global

- Temporary help, a leading indicator of broader employment gains, added a net 35,000 jobs in October, continuing the trend since September 2009. We've seen a total of 451,000 gains in temporary help since then.

## Temporary Workers Rising (last obs. October 2010)



Source: Bureau of Labor Statistics; Encima Global

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