

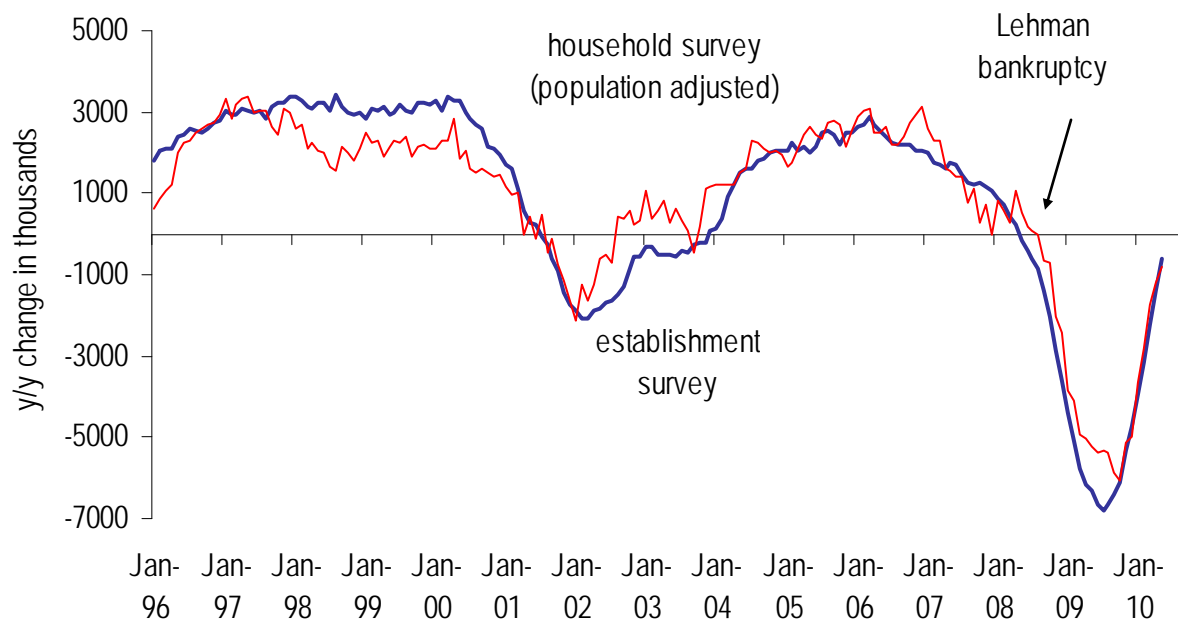
June 4, 2010

# Private Sector Jobs Weak in May, but Paychecks Went Up

Private sector payroll growth was weak in May, showing only a 41,000 gain versus the 180,000 consensus expectation. However, growth in hours worked and average hourly pay increased, and we maintain our view that GDP is growing a relatively fast 4.5% in the second quarter based on aggregate weekly payrolls and ISM data.

- Total job growth in the establishment survey was 431,000, with census hiring adding 411,000 net jobs and non-census government subtracting 21,000. The household survey found a decline of 35,000 jobs after a big add in April.

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



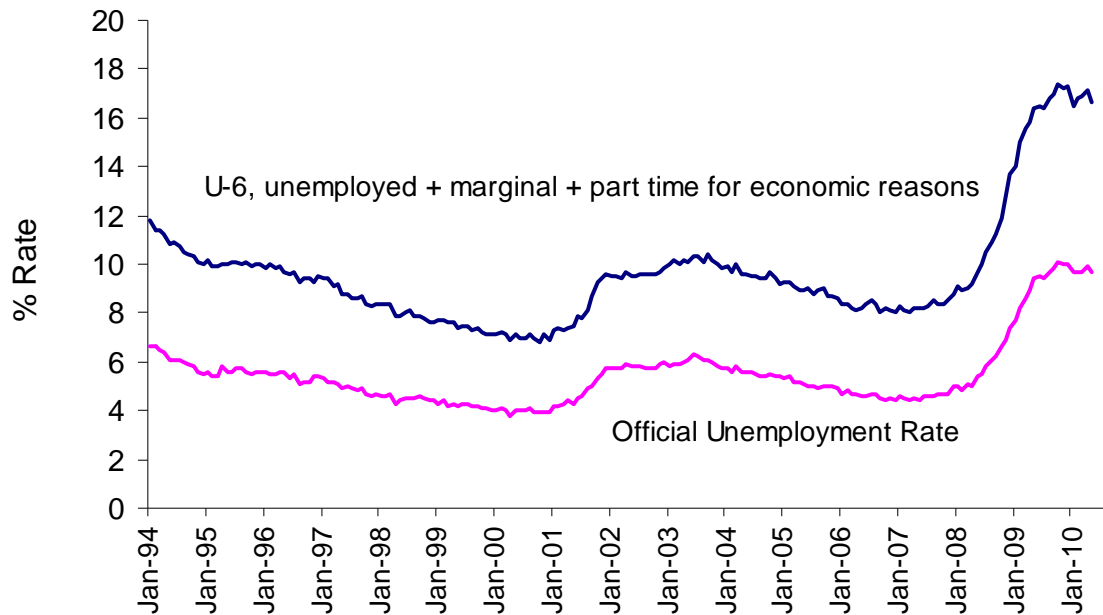
Source: Bureau of Labor Statistics; Encima Global

- As we noted in yesterday's preview piece, weakness in the private sector labor environment is still apparent in jobless claims, ADP data and small-business hiring intentions. Small businesses are under severe pressure in terms of after-tax profits, credit availability, and rising tax rates complexity. While these Washington policies persist, we expect enough job growth to aid GDP and consumption, but not enough to feel robust.

**There were several positives in today’s labor data:**

- The official unemployment rate fell to 9.7% in May from 9.9% in April. U-6 underemployment fell to 16.6% in May from 17.1% in April. The official unemployment rate fell primarily because the civilian labor force fell by 322,000 to 154.4 million. The U6 unemployment rate was helped by the shift of workers from part-time to full-time employment (graphed later in the piece).

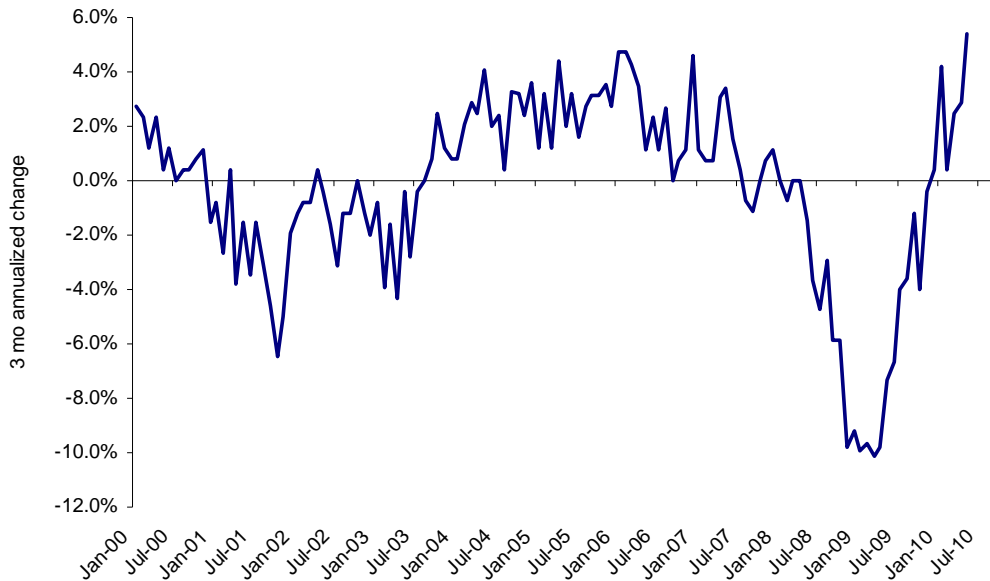
**Unemployment Rate and Underemployment Rate (last obs. May 2010)**



Source: Bureau of Labor Statistics; Encima Global

- Aggregate weekly hours worked by production and nonsupervisory workers grew 5.4% in the three-months through May (annualized rate, the product of weekly hours and employment).

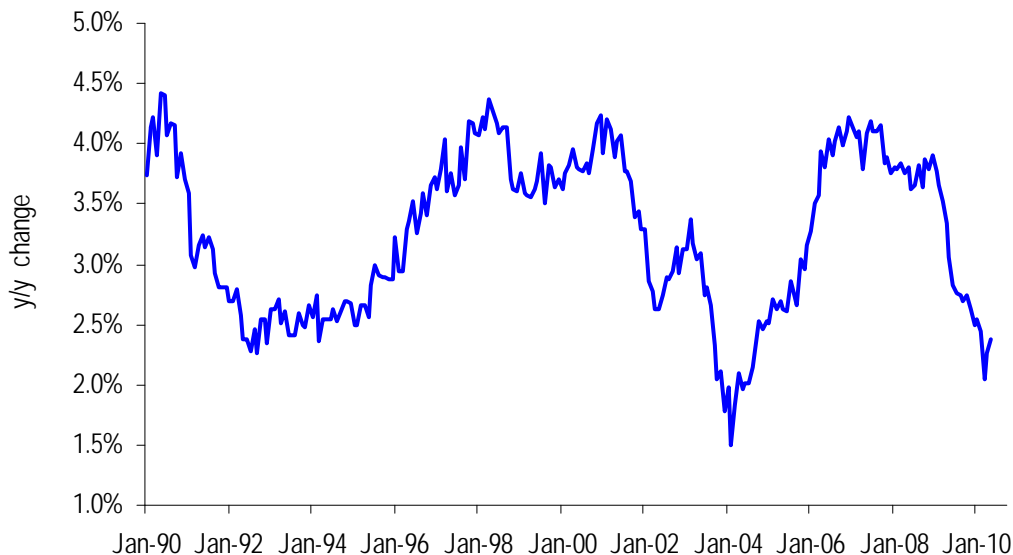
## Aggregate Weekly Hours index (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- Average hourly earnings of production and nonsupervisory workers rose \$0.04 to \$18.99 in May, 2.4% on a year over year basis. Hourly earnings are now rising faster than the CPI (2.2% year-over-year).

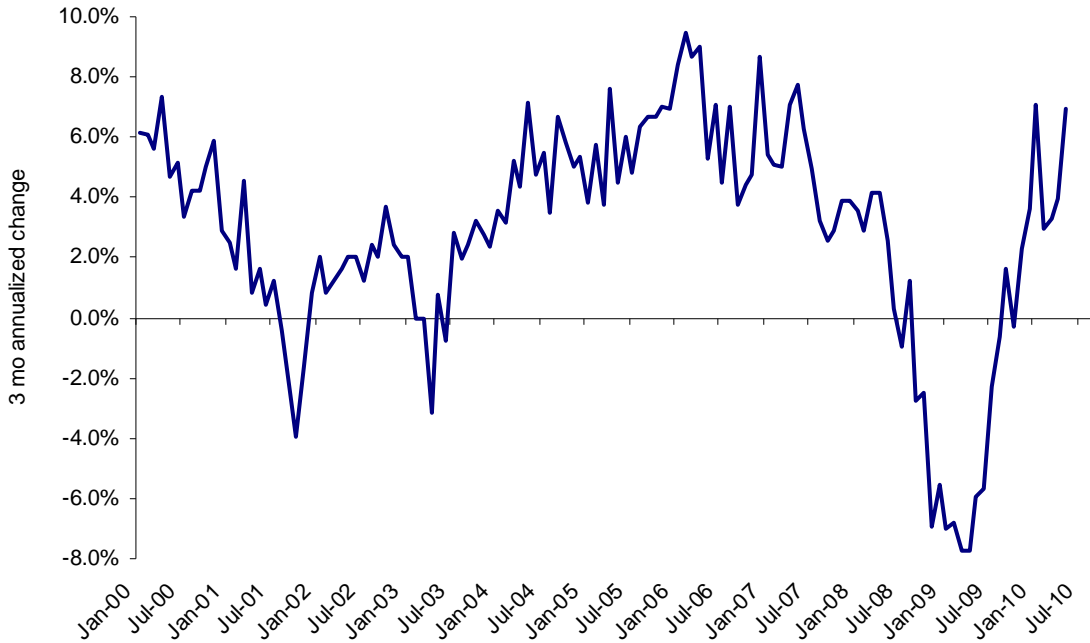
## Average Hourly Earnings Y/Y (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- Aggregate weekly payrolls (the product of hours, earnings and employment) for production and nonsupervisory workers grew 7.0% for the three months ending in May (annualized), consistent with strong GDP growth. Healthier growth in wages and salaries is likely in the personal income report (due June 28).

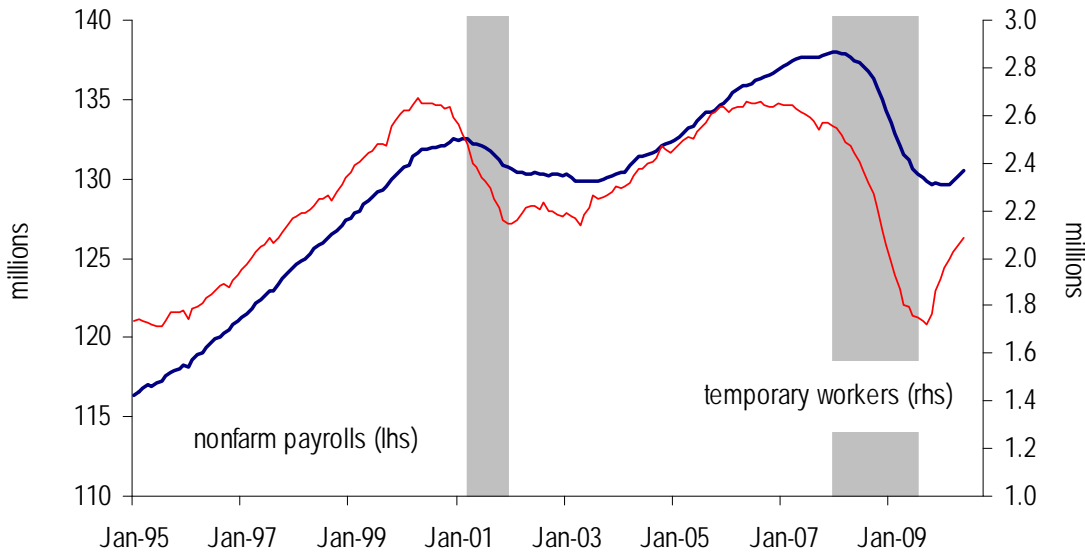
## Aggregate Weekly Payrolls index (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- Job gains in temporary help, a leading indicator of broader employment gains, were again a bright note in the labor report, adding 31,000 jobs in May. Temporary employment has risen 361,600 from the September 2009 low.

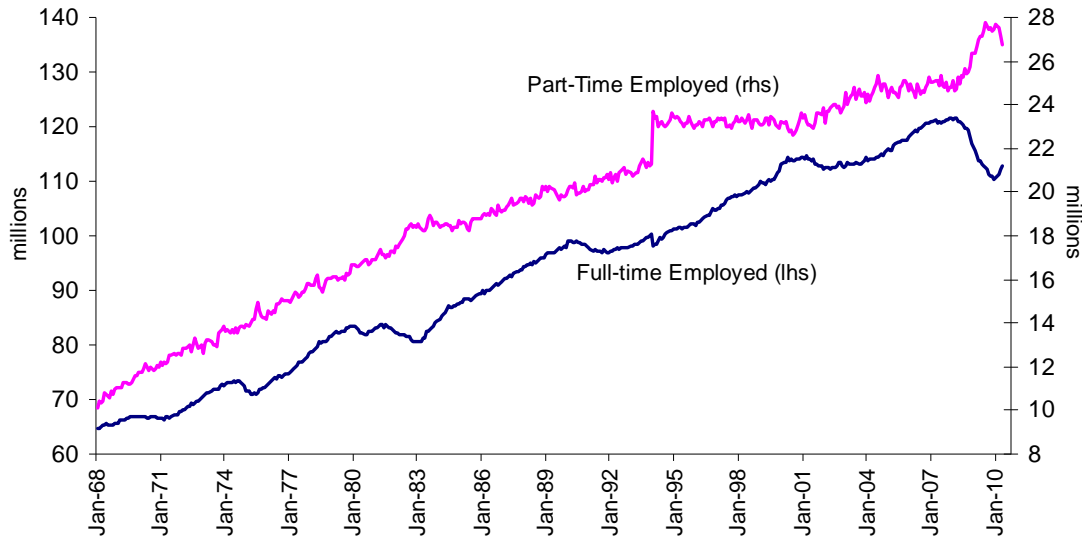
## Temporary Workers Rising (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- Per the household survey, the number of full-time workers rose a strong 625,000 in May while part-time workers fell 417,000. This conversion of part-time workers to full-time has positive implications for the sustainability of the expansion and for consumption.

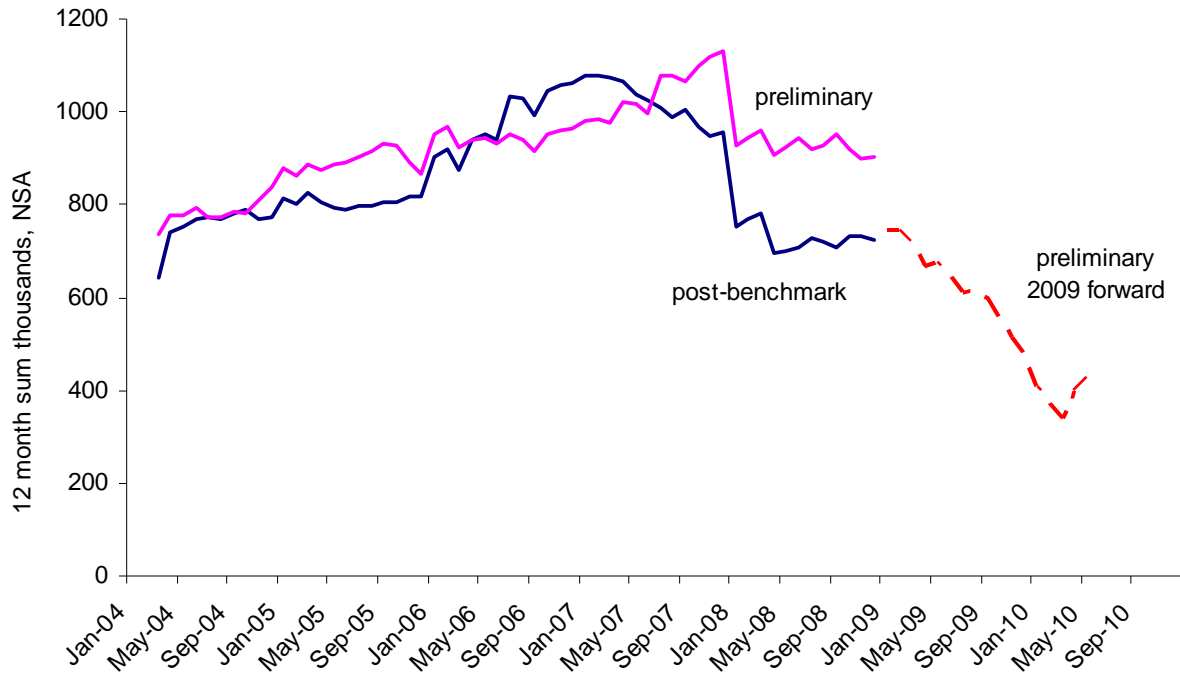
### Part-time and Full Time Employed (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- The Net Birth/Death Model added 215,000 jobs in May to the non-seasonally-adjusted data payroll data, which showed 1.09 million new jobs (NSA). We don't think there is a major problem with the birth-death model. To oversimplify, its goal is to adjust the establishment survey for small-business activity not covered in the survey of establishments. It tends to overstate job gains at the beginning of a downturn. In previous upturns, it has tended to understate job gains until subsequent revisions (a normal phenomenon for a trend-following model.) We note the different character of this upturn. It's led by government and big businesses more than small businesses, so the normal understatement of jobs at this point in the cycle may not be occurring -- we'll know more about the data when the benchmark revision comes out next year. It's particularly difficult to make accurate estimates of the birth and death of new firms during periods of major employment dislocation like the current one. (In the graph below, the model overstated gains at the beginning of the 2008 downturn.)

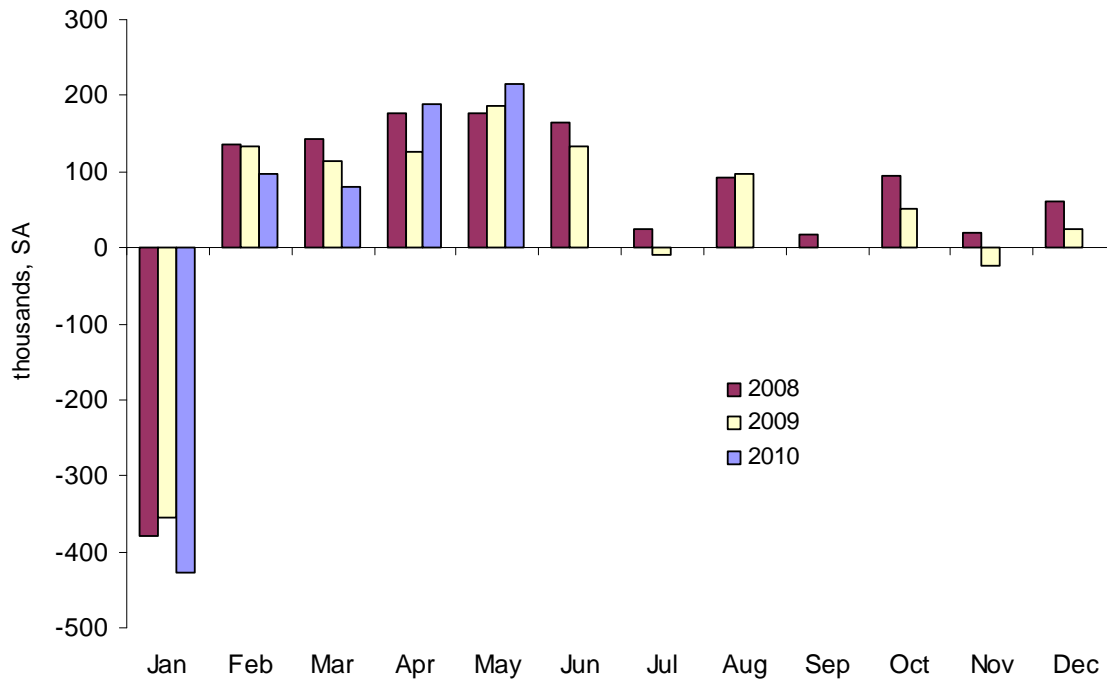
## 12 month sum of Net Birth Death Modal (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- The May 2010 net birth/death gain of 215,000 was the largest addition in three years, but April 2006 added 271,000 jobs and April 2007 added 262,000 jobs. We expect lessening adjustments from the birth-death model in coming months, especially after the June report.

## Net Birth Death Model (last obs. May 2010)

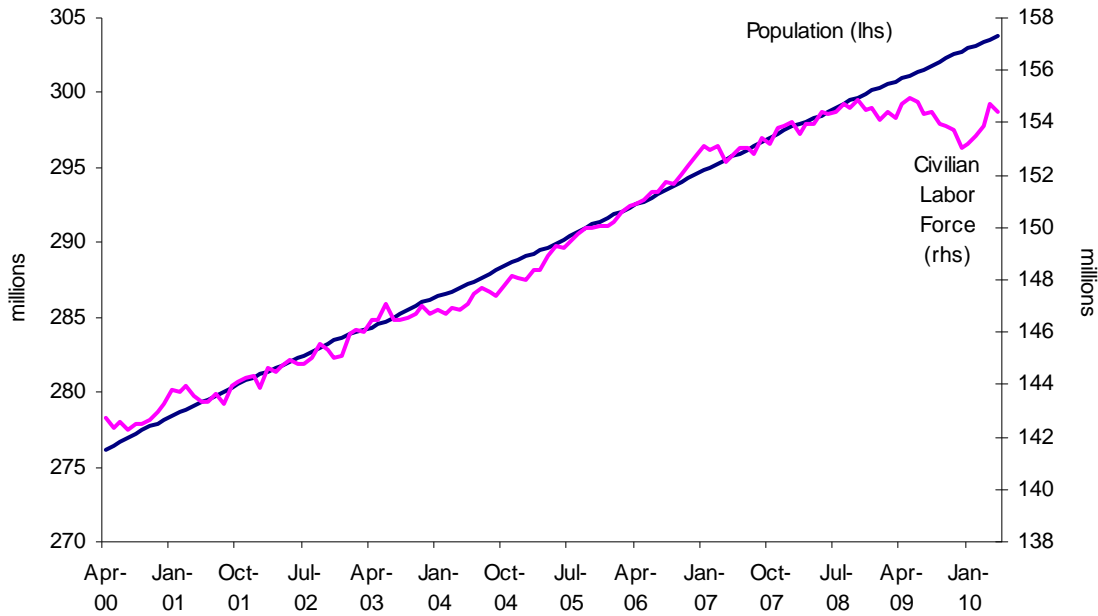


Source: Bureau of Labor Statistics; Encima Global

## Daunting Labor Problems Remain

- Per the household survey, the number of unemployed workers fell 287,000 to 14.97 million due to a decrease in the civilian labor force (by 322,000). Though May saw reductions in jobs and the labor force, going forward we expect gains in both, leaving the unemployment rate relatively high. In effect, there's an overhang of workers waiting for better labor conditions to reenter the labor force.

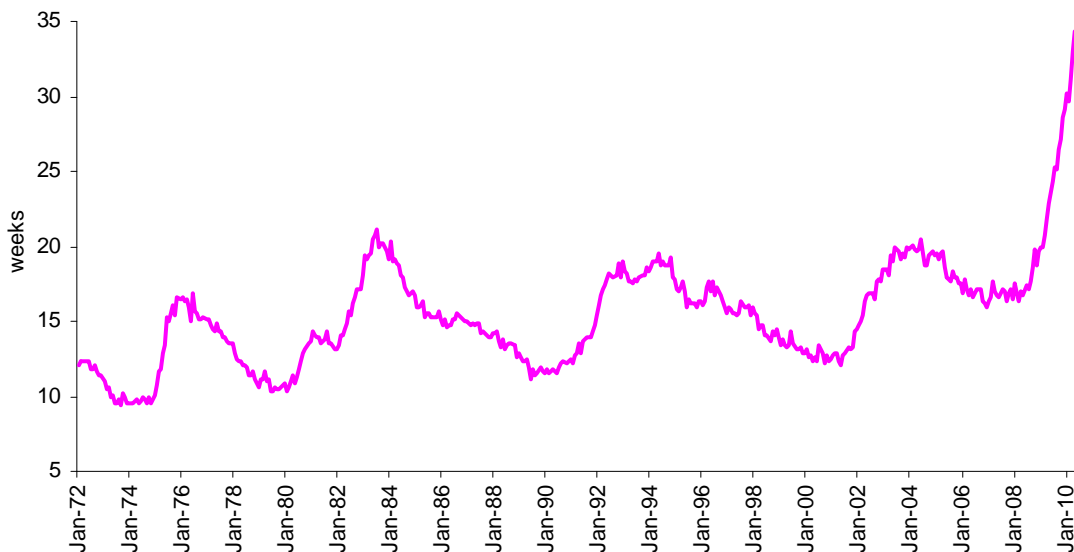
## Population and the Civilian Labor Force (last obs. May 2010)



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

- The average duration of unemployment has risen to a new high of 34.4 weeks.

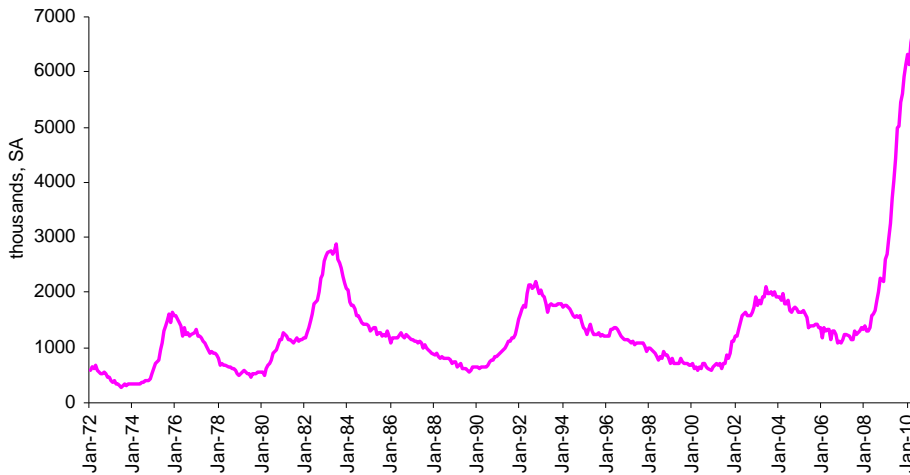
## Duration of Unemployment (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- The number of workers 'unemployed for more than 27 weeks' has risen to 6.8 million.

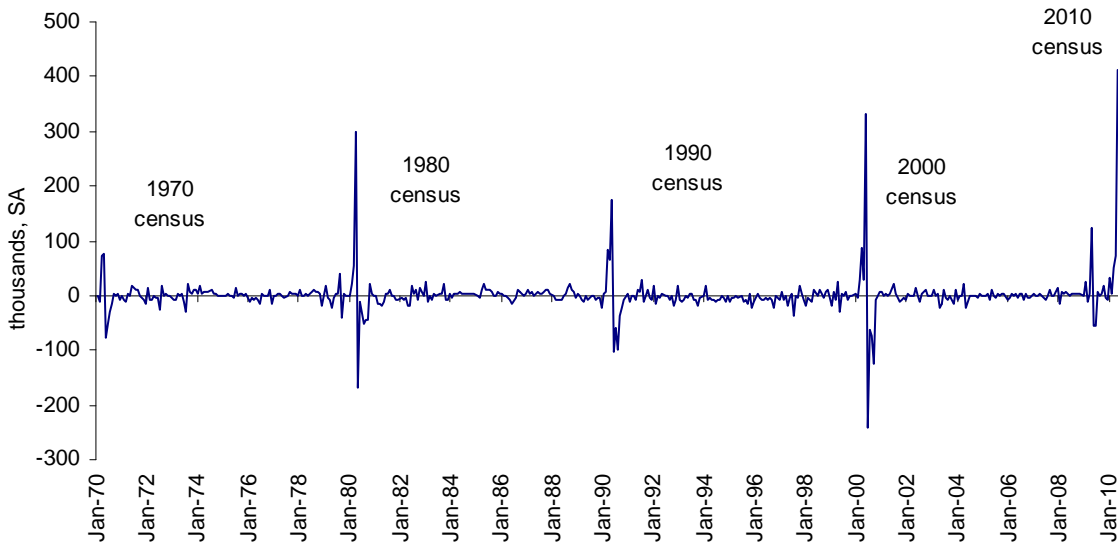
## Number of People Unemployed for more than 27 weeks (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

- The 2010 census did a first round of temporary hiring in April 2009, releasing many of them in subsequent months (see graph.) In April-May 2010, there has been a bigger burst of census hiring. Most of it will reverse over the next few months, putting upward pressure on jobless claims and unemployment.

## Federal Gov't Jobs m/m (last obs. May 2010)



Source: Bureau of Labor Statistics; Encima Global

**Notes:** This email and attachment are confidential and intended solely for the use of the individual to whom they are addressed. Encima Global LLC does not accept liability for the content, or for the consequences of any actions taken on the basis of the information provided. The information is not necessarily complete, and we make no warranty as to its accuracy.