

October 8, 2010

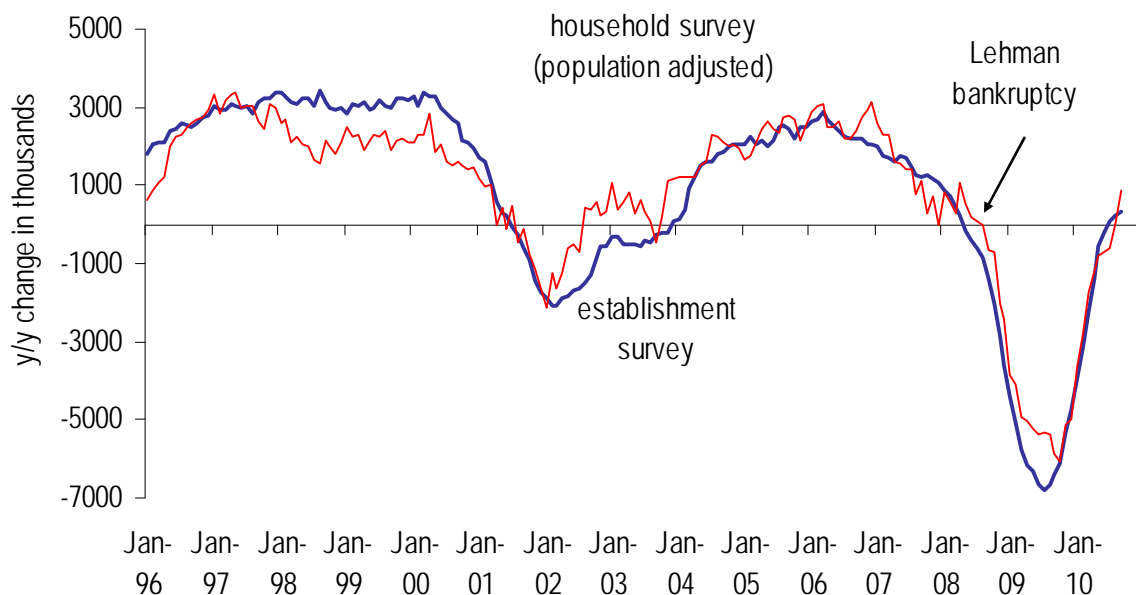
Tepid Private Sector Job Gains; Local Governments Downsizing

Today's employment report was consistent with a tepid recovery. We're skeptical of the value of the Fed's expected quantitative easing and think the key variables in the U.S. outlook are Washington's ability to undo the damage from the impending tax train wreck and to reverse policies on spending and federal control of health care, credit and mortgages. With the dollar in freefall, many foreign growth and investment prospects look better than those in the U.S.

Unemployment stayed at 9.6% in September, with a welcome increase in the jobs recorded in the household sector survey and only a small increase in the labor force. We like the household sector survey where people (rather than employers) are asked whether they are working -- it is better at picking up employment in new businesses, which are critical to overall job growth and have been severely lagging in this recovery.

- Year-over-year job growth in the household sector has now moved well into positive territory, with 141,000 gains in September and 862,000 gains since September 2009. The labor force grew 48,000 in September to 154.2 million.
- Establishment survey payrolls, down 95,000 in September, show 344,000 year-over-year gains, but the downward benchmark revision pending in February of 366,000 will eliminate at least most of that.

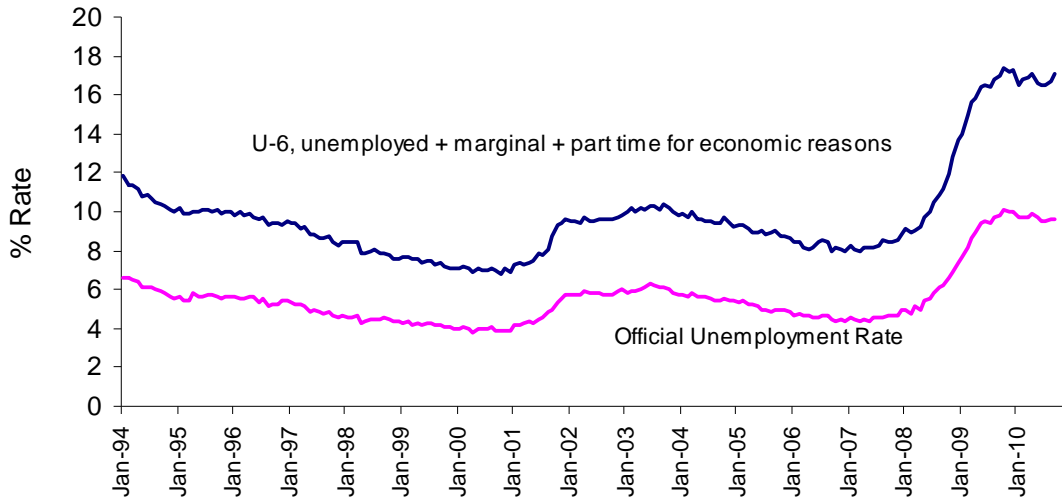
Annual Changes in Employment (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

- At the end of September, unemployment was 14.8 million with another 9.5 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. 6.1 million workers have been unemployed more than 27 weeks. U6 unemployment, which doesn't include workers who haven't searched in the last year, rose to 17.1% from 16.7% in August.

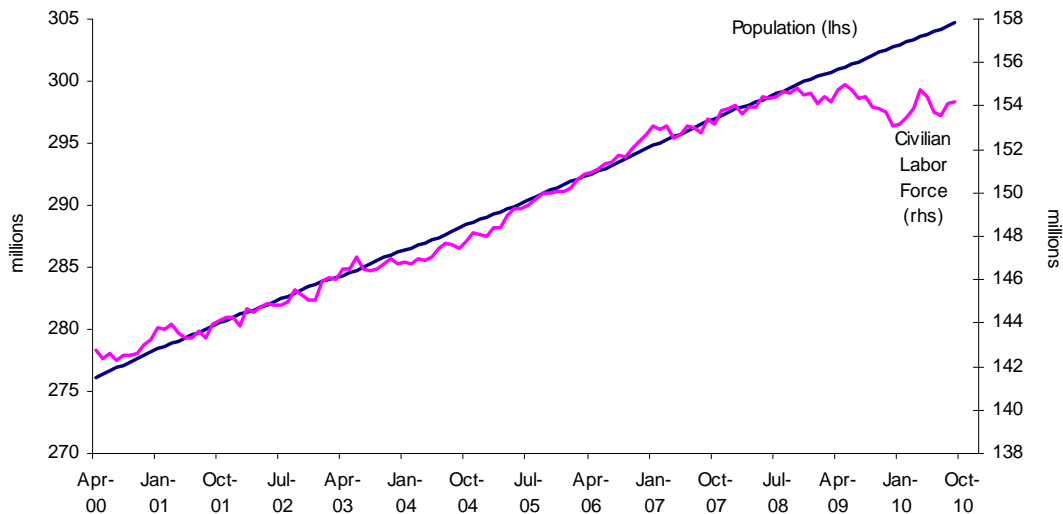
Unemployment Rates (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

- Going forward, we expect the economy to grow enough to start producing 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. September 2010)



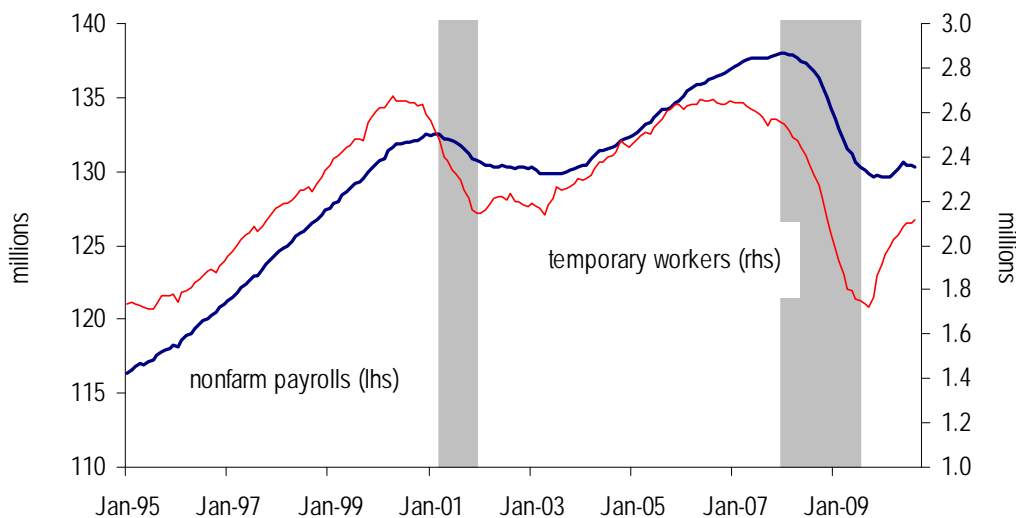
Source: Census Bureau; Bureau of Labor Statistics; Encima Global

Some Private Sector Job Gains

The survey of established businesses showed a decline of 95,000 in September non-farm payrolls.

- Private sector employment gained 64,000, which was below the consensus expectation of 75,000 but stronger than the ADP survey and jobless claims earlier in the week had suggested. In addition, July and August private sector jobs were revised up by 36,000.
- Temporary help, a leading indicator of broader employment gains, added a net 17,000 jobs in September, continuing the trend since September 2009. We've seen a total of 404,000 gains in temporary help since then.

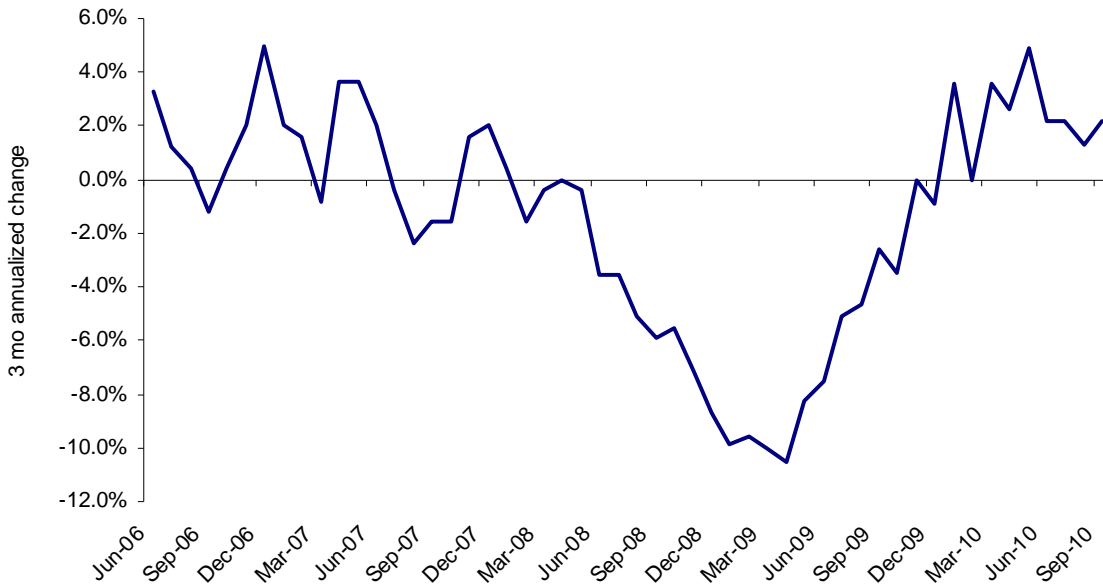
Temporary Workers Rising (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

- With tepid growth in employment and hours worked per week showing no growth in September, aggregate weekly hours (weekly hours times jobs) grew at only a 2.2% annualized rate in the three months through September.

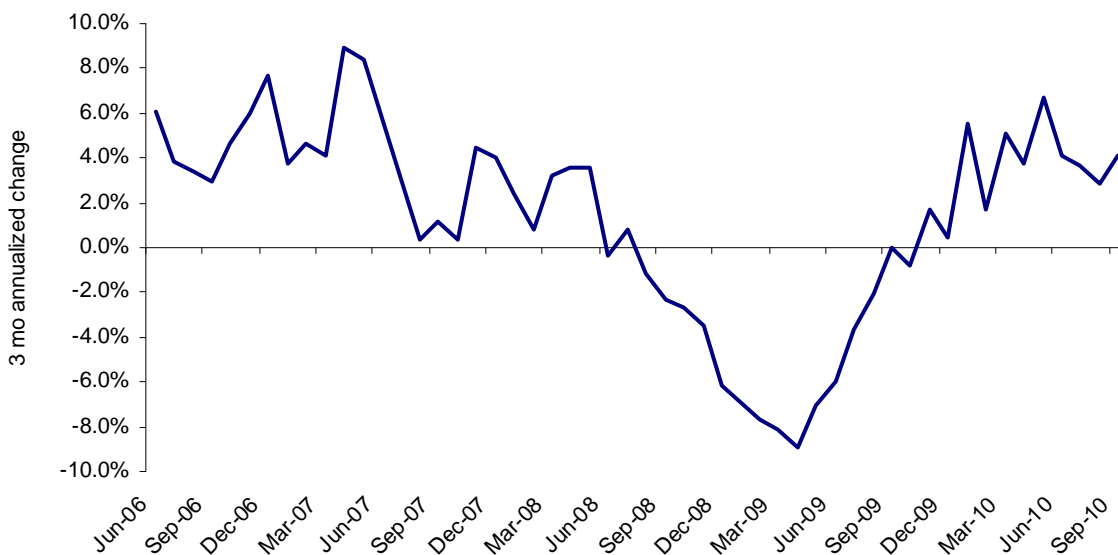
Aggregate Weekly Hours Index 3 mo annualized (last obs. September 2010)



Source: Bureau of Labor Statistics; Encima Global

- Hourly pay was roughly unchanged at \$22.67 in September. It is up from \$22.55 in June, helping aggregate weekly payrolls (the product of hours, earnings and employment) expand 4.1% annualized for the three months ending in September. This is consistent with our expectation of 2% real GDP growth.

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

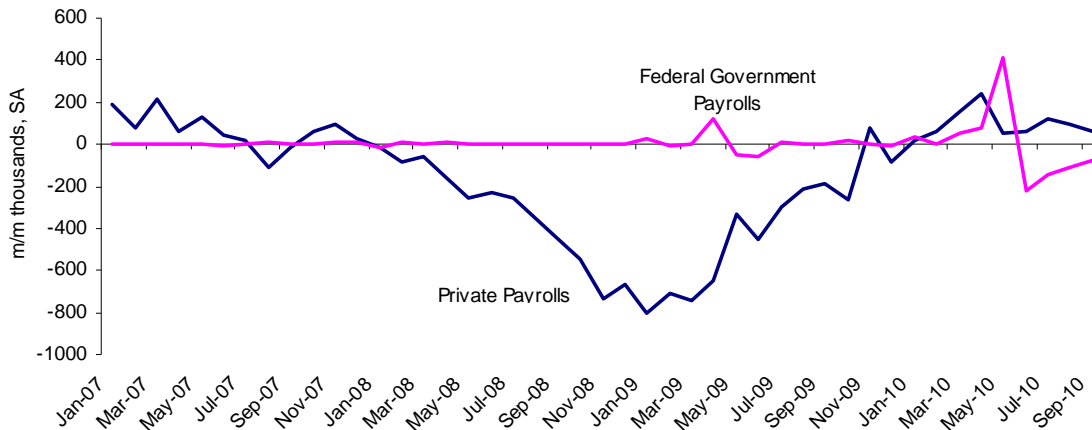


Source: Bureau of Labor Statistics; Encima Global

Local Government Jobs Declined

Government workers declined by 159,000 in September, of which census worker layoffs subtracted 77,000 jobs and local governments subtracted 76,000. State workers and non-census federal workers showed small declines totaling 6,000 while July and August government workers were revised down by 51,000. From January 2008 through October 2009, private payrolls decline by 8.5 million while federal payrolls were stable.

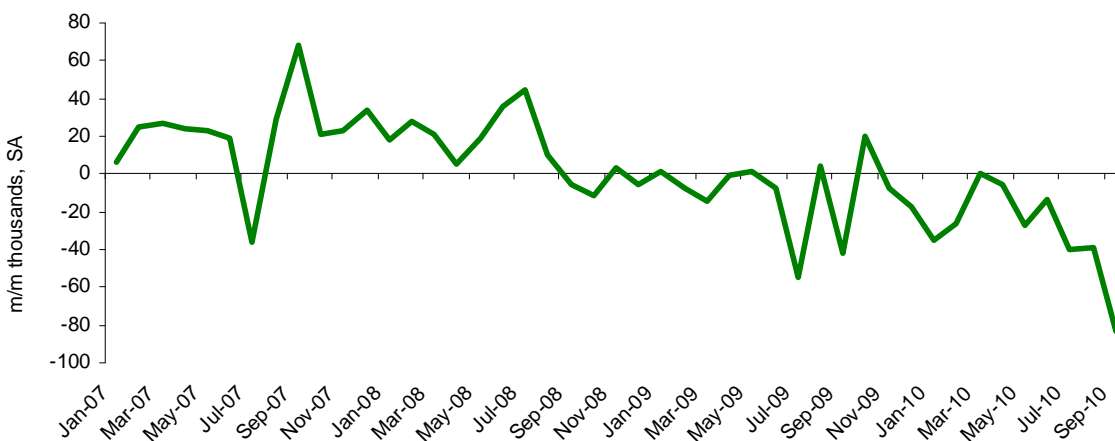
Federal Government and Private Sector Growth m/m chg (last obs. Sept 2010)



Source: Bureau of Labor Statistics; Encima Global

- Total federal workers stand at 2.8 million, with 19.4 million state and local government workers. State and local government payrolls have been declining since 2009 and released 83,000 workers in September. We expect net layoffs from state and local governments to remain high, whereas the federal government is in the process of adding many new regulatory jobs, which should cause it to maintain payrolls.

State and Local Government Payroll Growth m/m change (last obs. Sept 2010)



Source: Bureau of Labor Statistics; Encima Global

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