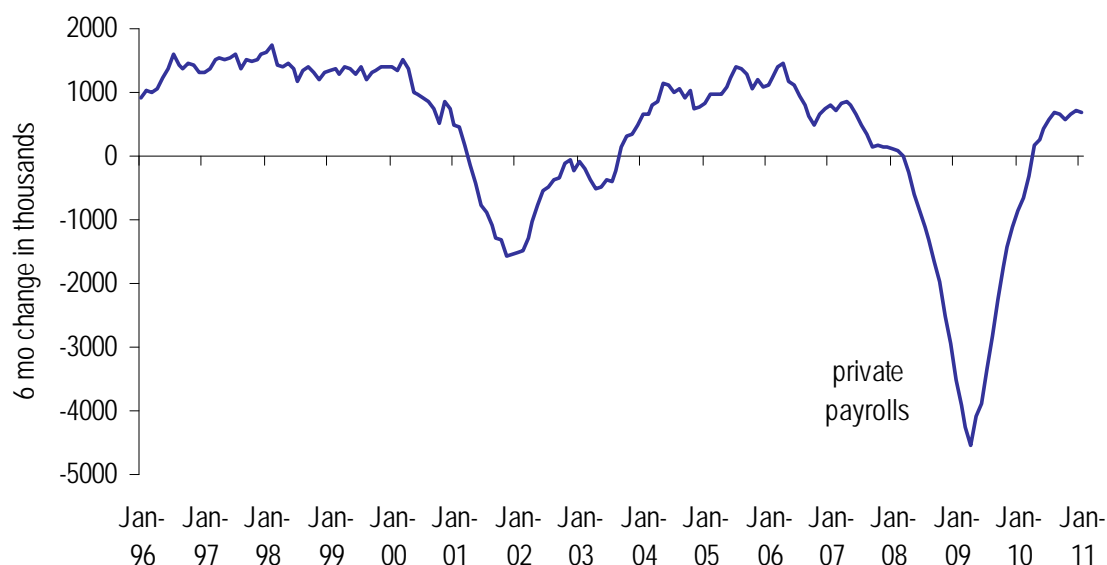


Weak Payrolls, but Recovery In Other Indicators

Payrolls grew only 36,000 in the establishment survey, bringing employment to 130.3 million. The household survey showed a 9% unemployment rate, down from 9.4% in December and 9.8% in November. On a population-adjusted basis, household jobs grew 589,000 in January after a strong gain in December, bringing household employment (which takes full account of small businesses) to 139.3 million.

- Several other indicators are showing a strengthening recovery penetrating into the labor environment. Initial claims have improved. ADP is seeing more jobs. Mass layoffs are way down, per Challenger-Gray – fewer than any time since 2000. ISM employment indices have jumped.
- To date, the payroll surveys have been disappointing. Over the last six months, 679,000 private sector jobs were added, a monthly average of 113,000. In the 1990s, six-month private job growth was sustained above 1.5 million, which was the peak rate in the middle of the 2000s expansion. We think job growth will reach that pace in this expansion, probably late in 2011, as auto production increases rapidly to catch up to sales and small businesses get more oxygen. Given the depth of the job losses (4.5M in six months in mid-2009), unemployment will be high even with fast job growth.

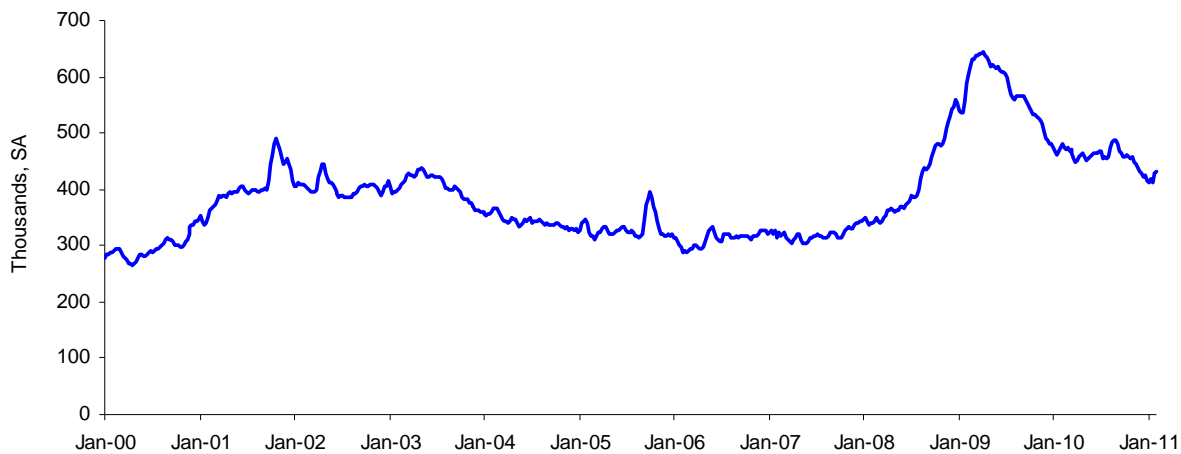
Six Month Change in Private Payrolls (last obs. January 2011)



Source: Bureau of Labor Statistics; Encima Global

- 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. After stalling a year ago in what turned into a “soft patch” for the economy, initial claims have been trending lower since mid-August. The four week average of claims stood at 430,500 for the week ending January 29.
- We think small businesses are finally adding some jobs – or at least the survivors are. The NFIB survey has turned up in terms of hiring plans. ADP small business gains improved. The household sector is outperforming the establishment survey, an encouraging development. The threat of a year-end tax increase was resolved, at least temporarily, and some tax rates were reduced. Bank lending is rising from a low level. Federal tax receipts from withholding taxes are rising quickly. We’re maintaining our 4% GDP growth expectation for Q1 – if not for the weather, we’d be raising it.

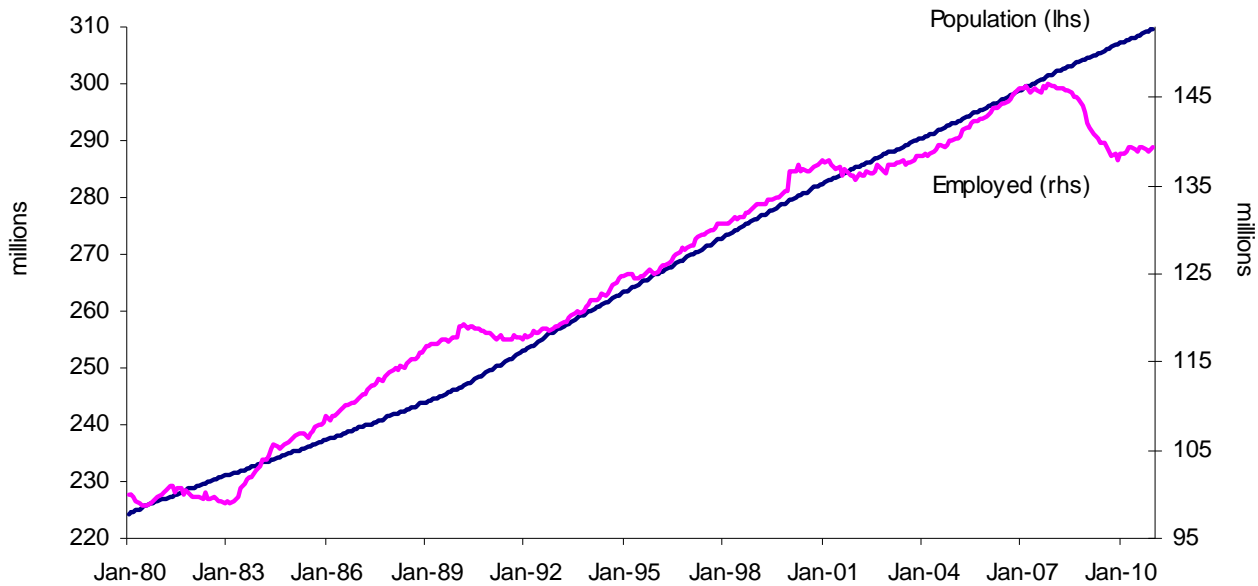
Initial Unemployment Claims – 4 Week average (last obs. January 29, 2011)



Source: Bureau of Labor Statistics; Encima Global

- In 2009 and 2010, we emphasized the problems facing small and new businesses as poor economic and regulatory policies channeled credit elsewhere, mostly to government in 2009 and then also to bond issuers in 2010. Many of these job losses are permanent. Employment is still 7.3 million below its November 2009 peak and 13.7 million below where it should be based on population growth.

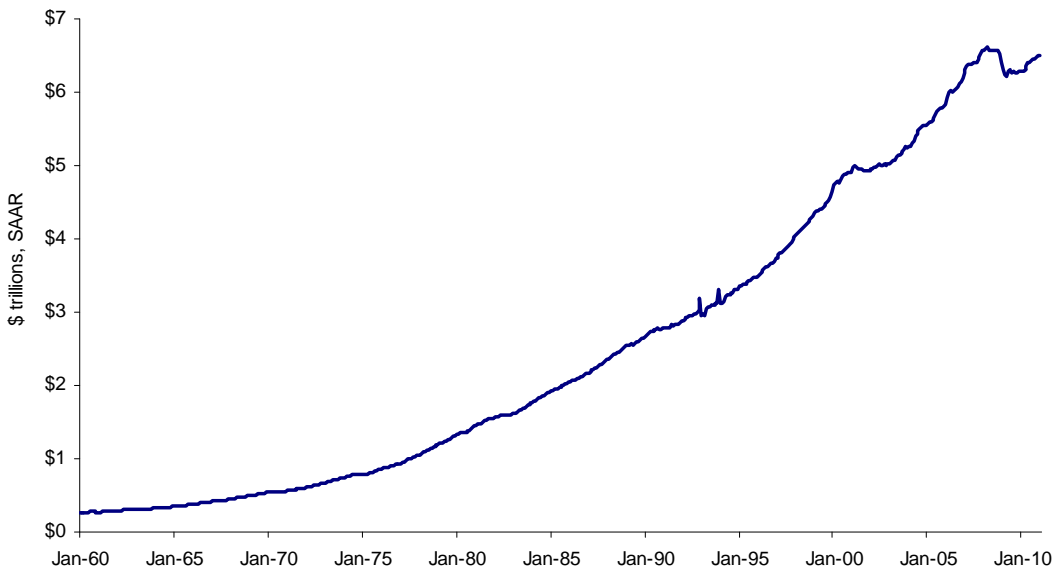
Employed Workers and Population (last obs. January 2011)



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

- Income growth has been particularly weak so far in the expansion, up only 3.5% nominal year-over-year to \$6.51 trillion in December. The high ISM readings plus the prospect of faster manufacturing production are adding to manufacturing jobs, up 49,000 in January. Since these tend to be higher paying, it should add some to personal income, partially offsetting the headwind from expiring unemployment benefits.

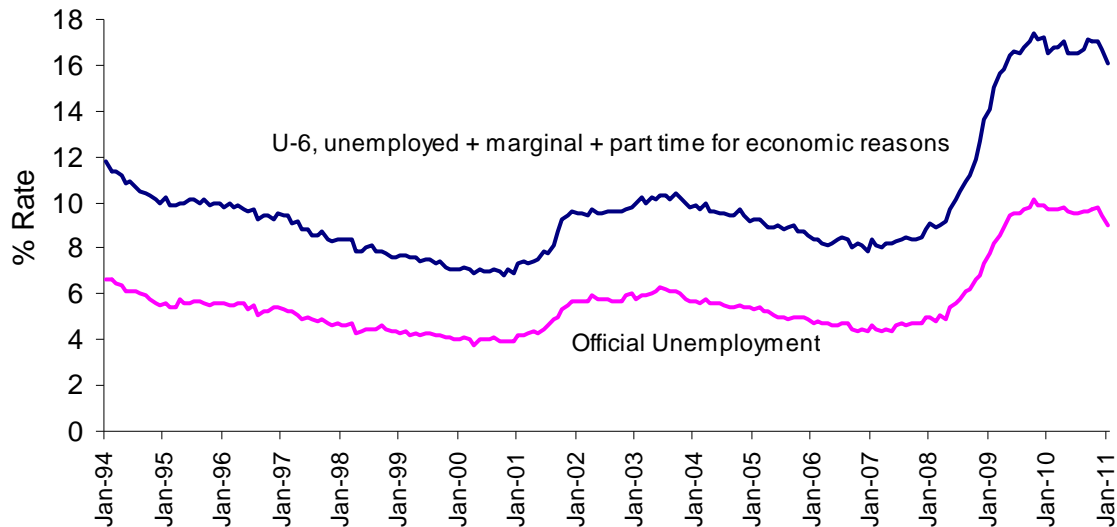
Wages and Salaries (\$ trillions, last obs. December 2010)



Source: Bureau of Economic Analysis; Encima Global

- Unemployment fell to 9% in January and underemployment to 16.1% from 16.7% in December, reflecting more affirmative answers to the household survey question of whether people in the household are working.

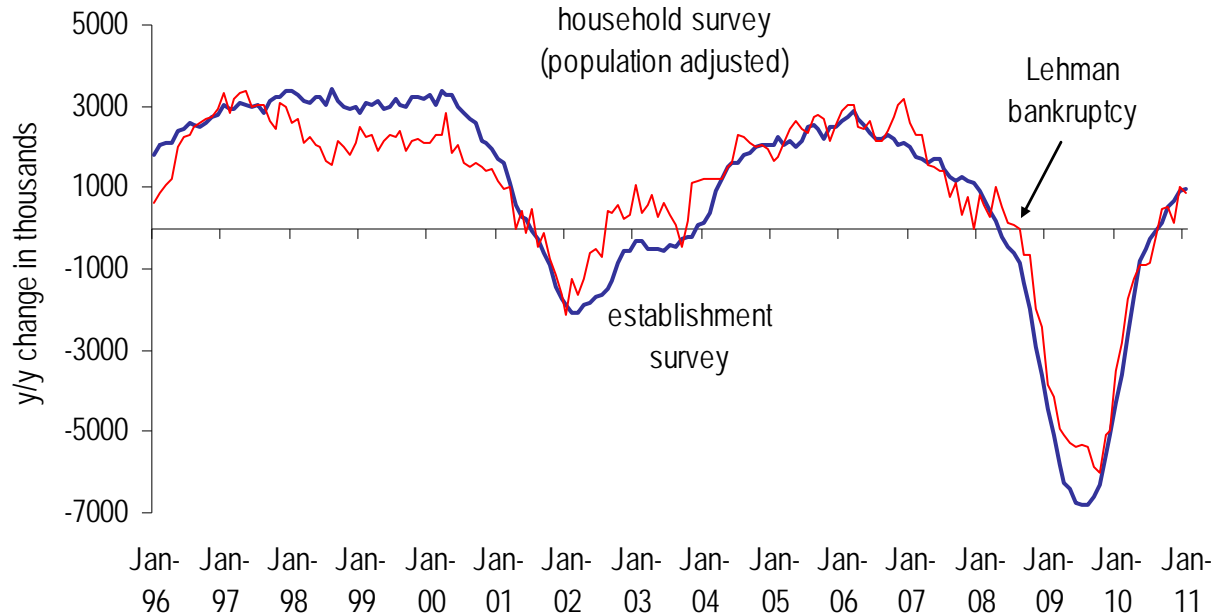
Unemployment and Underemployment Rate (last obs. January 2011)



Source: Bureau of Labor Statistics; Encima Global

- In today's release, the Labor Department incorporated a 378,000 reduction to payroll employment for data through March 2010. It had earlier announced plans to subtract roughly 366,000 from non-farm payrolls. This is a normal revision process, bringing the establishment survey more into alignment with the weaker 2009 and early 2010 data from initial jobless claims, tax withholding and the household survey, all of which we think are better at spotting trends than the establishment survey. With today's release, the Labor Department will also begin estimating the net birth/death adjustment factors on a quarterly basis replacing their annual estimation method.

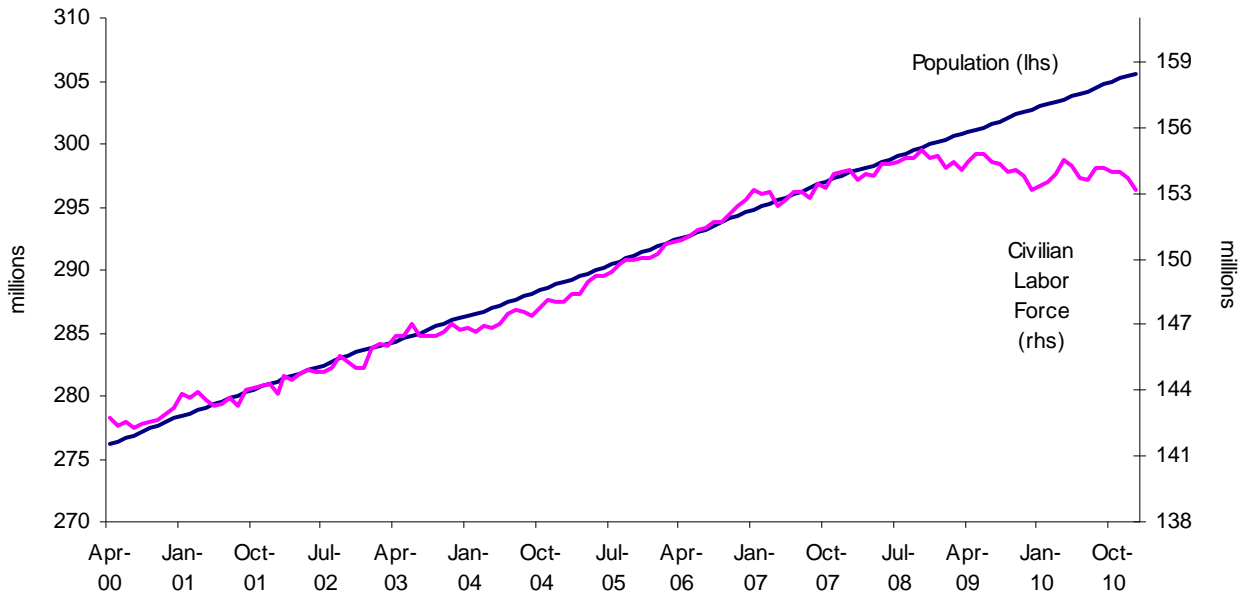
Annual Growth in Employment (last obs. January 2011)



Source: Bureau of Labor Statistics; Encima Global

- The labor force is already well below the population trend, leaving an overhang of people who may be able to return to the labor force if the economy tightens. **Even if job growth becomes fast, the unemployment rate may stay higher than normal. This has implications for the conduct of monetary policy: the Fed has a mandate to achieve full employment, which will be hard to accomplish given the overhang; and it watches for red flags in labor inflation which may be delayed well into the expansion because of the overhang.**
- The civilian labor force peaked at 155 million in October 2008 and stood at 153.2 million in January. With the baby boom entering retirement, we expect only slow labor force growth in coming decades. Japan has been seeing a decline in its labor force since the late 1990s, while China's labor force is expected to peak late this decade. In contrast, the U.S. labor force, after a pause over the next two decades is expected to grow into the middle of the century, setting the U.S. apart from other industrialized countries and from China.

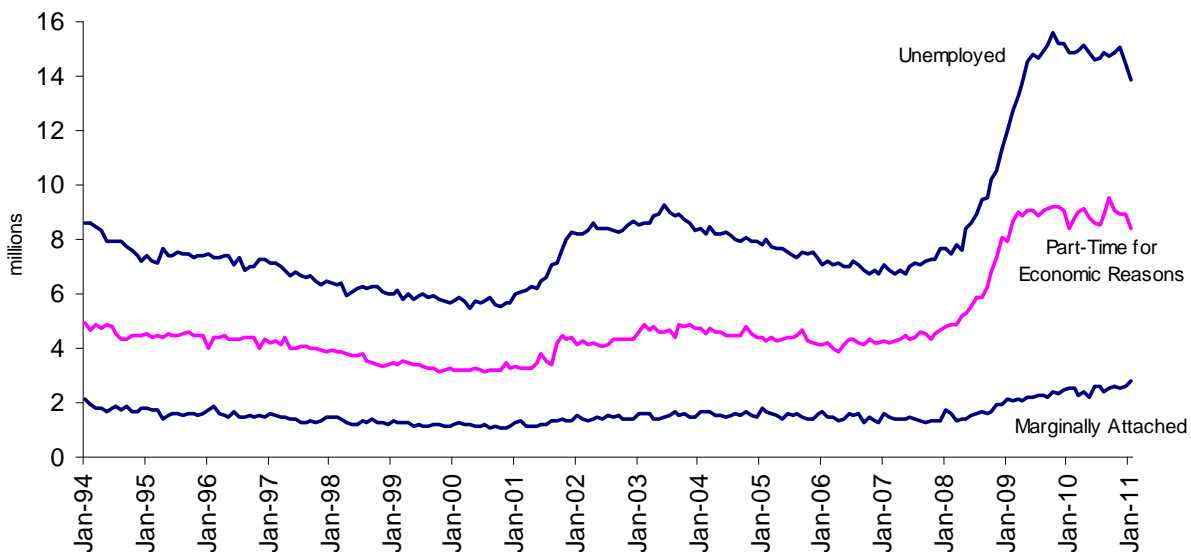
Civilian Labor Force and Population (last obs. January 2011)



Source: Bureau of Labor Statistics; Encima Global

- While the number unemployed (13.9 million in January) has been trending downward from the 15.6 million peak in October 2009, some of the decline is accounted for by people dropping out of the labor force and the increase in people who took part-time jobs but would like full-time jobs. Marginally attached workers (aren't searching but have searched in the last 12 months) are at their cycle peak at 2.8 million. Part-time for economic reasons stands at 8.4 million.

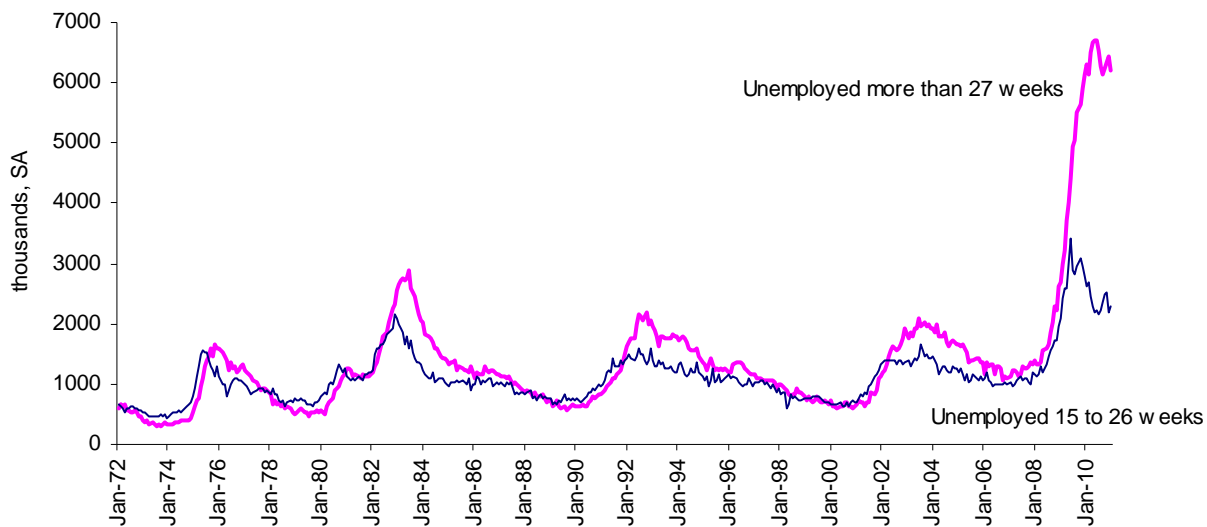
Worse than the Number of Unemployed (last obs. January 2011)



Source: Bureau of Labor Statistics; Encima Global

- The average duration of unemployment is particularly long at 36.9 weeks, while the median duration of unemployment has fallen to 21.8. This shows a bifurcation – long-term unemployed are not finding jobs as readily as those who lost their jobs more recently. Given this dynamic, many longer-term unemployed will receive unemployment benefits through the 99 week limit at which point some will find work and many will drop out of the labor force, reducing the unemployment rate. Roughly 3.6 million long-term unemployed will reach the 99 week limit during 2011, with roughly another million losing federal unemployment benefits in January 2012 assuming federal benefits are discontinued then, creating substantial downward pressure on the unemployment rate partially offset by the overhang in the labor force discussed above. With the long-term unemployed having trouble finding work, the wind-down of federal jobless benefits will put some downward pressure on already-weak personal income growth (offset by faster job growth.)
- There are now 6.2 million workers unemployed for more than 27 weeks (peak was 6.7M in May). The number of unemployed between 15 and 26 weeks stands at 2.3 million, well below the peak of 3.4 million in June 2009.

Unemployed Longer than 27 Weeks (last obs. January 2011)

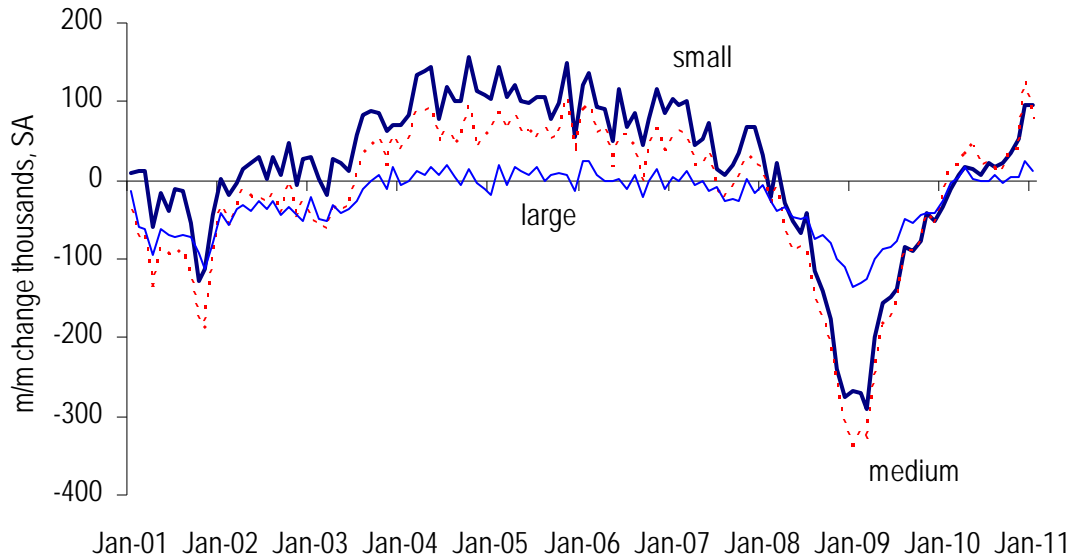


Source: Bureau of Labor Statistics; Encima Global

ADP and ISM Show Improvement

- The ADP data released Wednesday showed a gain of 187,000 private sector jobs in January. There has been a general improvement since March 2009.

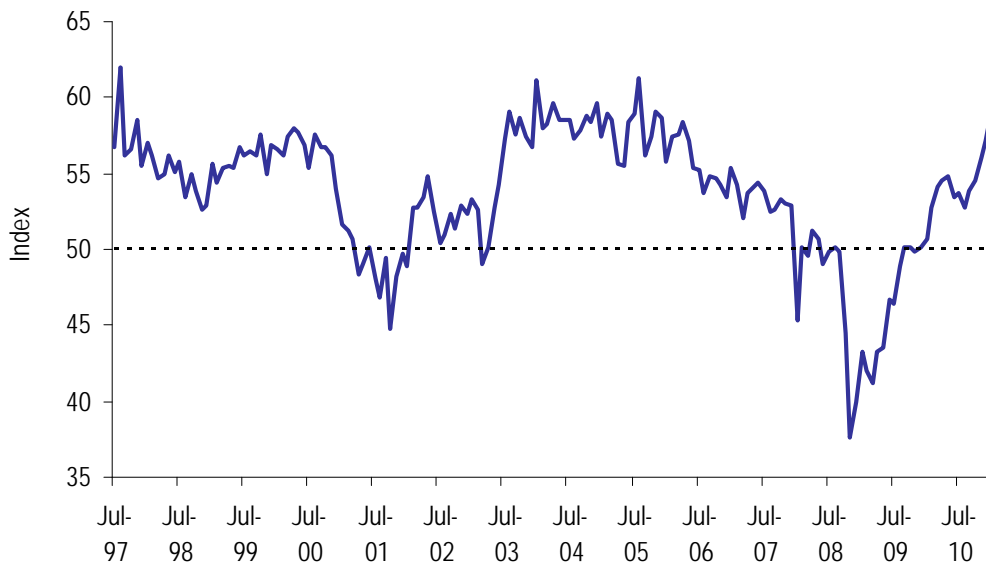
ADP Job Gains by Firm Size (last obs. January 2011)



Source: ADP; Encima Global

- ISM non-manufacturing came in at a strong 59.4 in January and has stayed above 50 since August 2009. ISM manufacturing was also strong at 60.8.

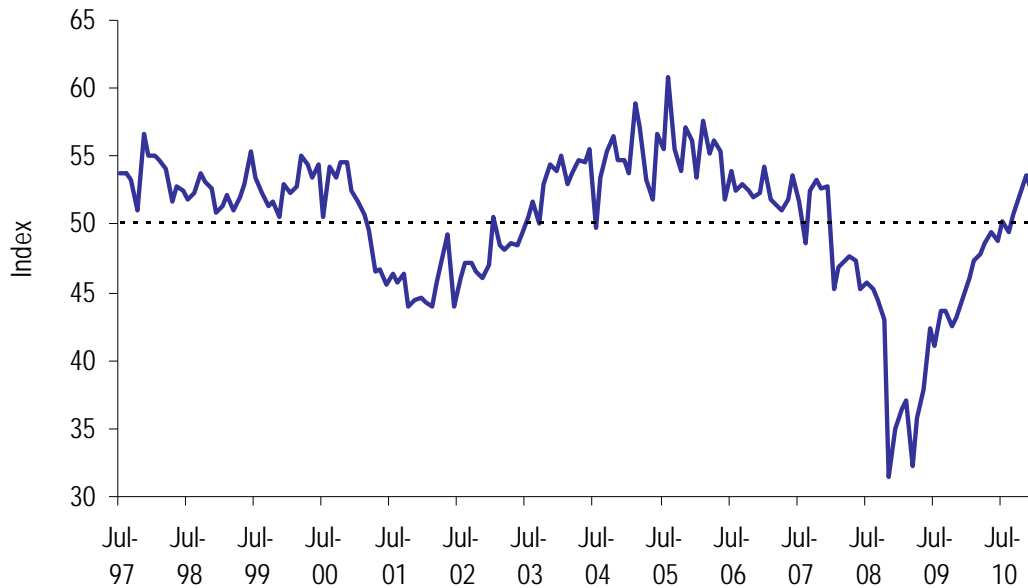
ISM Non-Manufacturing (last obs. January 2011)



Source: ISM; Encima Global

- ISM nonmanufacturing employment rose to 54.5 supporting the signs of strength seen in ADP. ISM manufacturing employment was particularly strong at 61.7.

ISM Non-Manufacturing Employment (last obs. December 2010)



Source: ISM; Encima Global

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