

DAILY GLOBAL
COMMENTARY

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November Employment Report: Headlines Justify Posture of Hawks but Details Favor the Doves and Call for Action

December 7, 2007

Civilian Unemployment Rate: 4.8% in November – unchanged from October

Payroll Employment: +94,000 in November, net loss of 48,000 jobs after revisions of payroll estimates for September and October.

Hourly earnings: +8 cents to \$17.63, 3.77% yoy change vs. 3.60% yoy change in October; cycle high was 4.28% yoy change in Dec. 2006.

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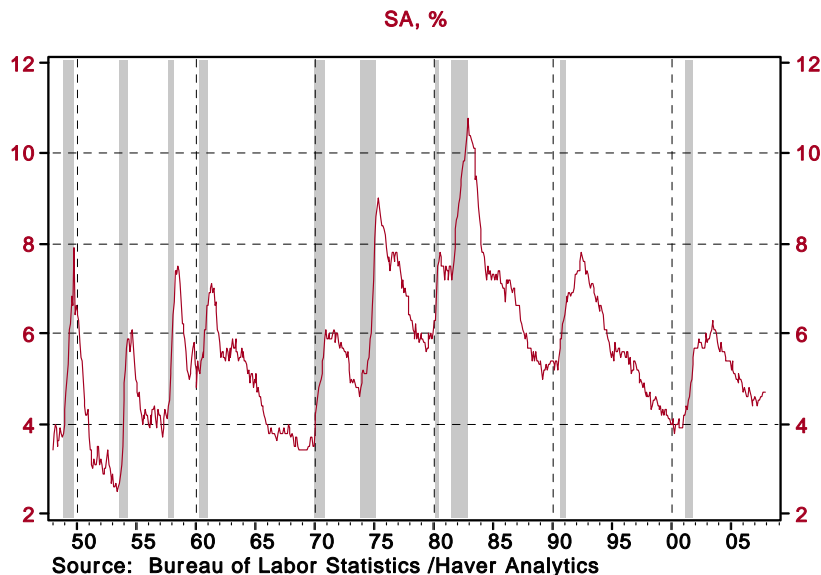
HIGHLIGHTS OF THE NOVEMBER 2007 EMPLOYMENT REPORT

| | <u>Jun-07</u> | <u>Jul-07</u> | <u>Aug-07</u> | <u>Sep-07</u> | <u>Oct-07</u> | <u>Nov-07</u> |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Household Survey | | | | | | |
| Chg. in Civilian Labor Force (000) | 310 | 159 | -340 | 573 | -211 | 617 |
| Chg. in Civilian Employed (000) | 197 | -30 | -316 | 463 | -250 | 696 |
| Civilian Unemployment Rate | 4.5 | 4.6 | 4.6 | 4.7 | 4.7 | 4.7 |
| Participation Rate | 66.1 | 66.1 | 65.8 | 66.0 | 65.9 | 66.1 |
| Employment-Population ratio | 63.1 | 63.0 | 62.8 | 62.9 | 62.7 | 63.0 |
| Establishment Survey | | | | | | |
| Chg. in Total Nonfarm Payrolls (000) | 69 | 93 | 93 | 44 | 170 | 94 |
| Chg. in Private Nonfarm Payrolls (000) | 71 | 117 | 30 | 37 | 132 | 64 |
| Chg. in Manufacturing Payrolls (000) | -19 | -4 | -45 | -15 | -15 | -11 |
| Chg. in Services - Private Sector (000) | 81 | 132 | 102 | 77 | 154 | 97 |
| Chg. in Government payrolls (000) | -2 | -24 | 63 | 7 | 38 | 30 |
| Total Workweek (Hours) | | | | | | |
| Manufacturing Workweek (Hours) | 41.4 | 41.3 | 41.4 | 41.3 | 41.2 | 41.3 |
| Manufacturing Overtime (Hours) | 4.3 | 4.2 | 4.1 | 4.1 | 4.1 | 4.1 |
| Average Hourly Earnings | | | | | | |
| | 17.40 | 17.45 | 17.50 | 17.54 | 17.55 | 17.63 |
| Chg. from prior month | 0.5% | 0.3% | 0.3% | 0.2% | 0.1% | 0.5% |
| Chg. from year ago | 4.0% | 3.9% | 3.9% | 3.9% | 3.6% | 3.8% |
| Average Weekly Earnings | | | | | | |
| | 589.86 | 589.81 | 591.50 | 592.85 | 593.19 | 595.89 |
| Chg. from prior month | 0.8% | 0.0% | 0.3% | 0.2% | 0.1% | 0.5% |
| Chg. from year ago | 4.0% | 3.6% | 3.9% | 3.9% | 3.3% | 3.8% |
| Index of Aggregate Weekly Hours: | | | | | | |
| Chg. from prior month in Total Index | 0.4% | -0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Chg. from prior month in Mfg. Index | 0.6% | -0.2% | -0.1% | -0.2% | -0.4% | 0.2% |

Household Survey – The headline unemployment rate was unchanged at 4.7%. Historically, the unemployment rate, a lagging indicator, climbs sharply during a recession and peaks after a recession (see chart 1). The current movement of the jobless rate between 4.4% and 4.7% in the entire year is probably the precursor to a recession.

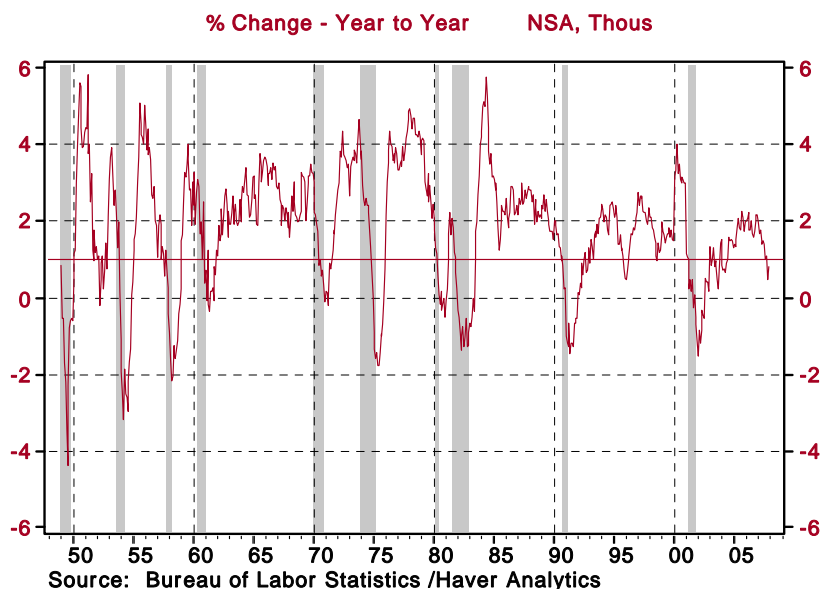
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Chart 1
Civilian Unemployment Rate: 16 yr +



The household survey has other information that is sending stronger signal of an imminent recession. The year-to-year change in non-agricultural employees reported in the household survey was 0.78% in November and 0.48% in October. Significant slowing of non-agricultural employment in the household survey of this nature is always associated with recessions (see chart 2). Based on the behavior of this measure in prior cycles, it is conceivable that the economy has entered a recession in this cycle.

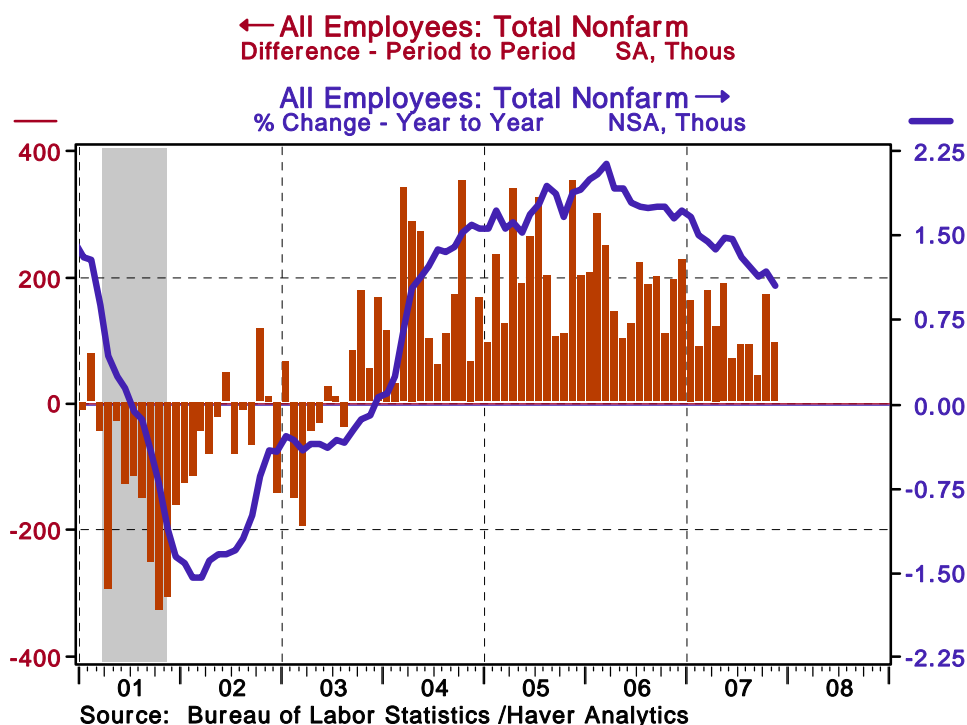
Chart 2
Civilian Employment: Nonagricultural Industries: 16 yr +



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Establishment Survey – Nonfarm payroll employment rose 94,000 in November after revised gains of 170,000 and 44,000 in October and September, respectively. Revisions led to a total loss of 48,000 jobs in the September-October period. On a year-to-year basis, nonfarm payroll employment rose 1.04% in November, down 110 basis points from the peak reading of 2.14% in March 2006.

Chart 3



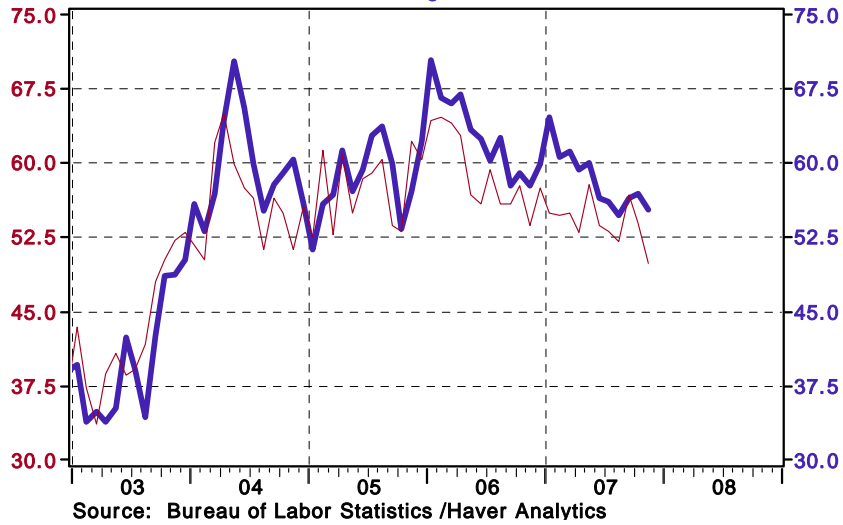
The birth/death adjustment process to reflect creation and shutdowns of businesses not counted in the survey has contributed substantially to the overall job creation reported. In the twelve months ended November, this procedure accounted for 78% of the jobs created where as it made up only 47% of payroll employment created in the twelve months ended November 2006. The upshot is that hiring is probably noticeably slower than implied by the headline payroll numbers because of this procedure.

The diffusion index of private sector payroll employment dropped to 49.8%, the first reading below 50% since September of 2003 (see chart 4). Diffusion indexes for the 3-month, 6-month and 12-month spans have also a declining trend. These trends indicate that the percentage of firms hiring is shrinking slowly.

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Chart 4
Diffusion Index: Employees On Private Nonag Payrolls
 % Rising

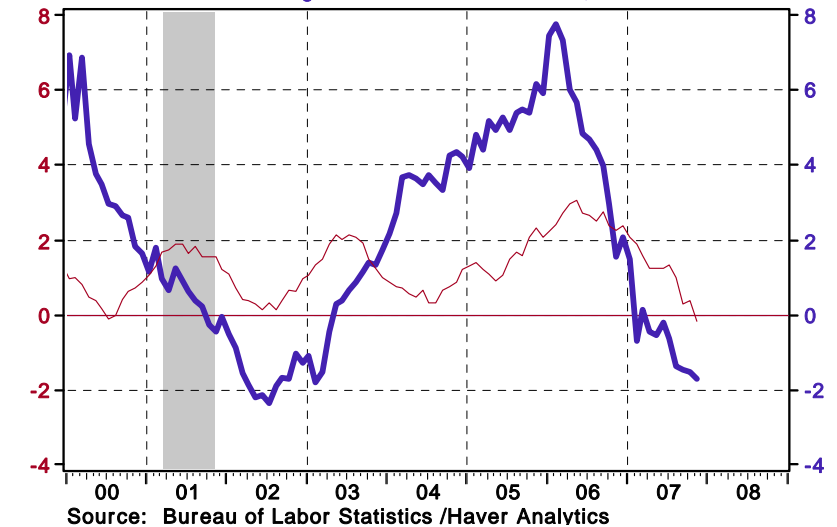
Diffusion Index: Employees On Private Nonag Payrolls
 % Rising, 3-Mo



From other details of the report, payrolls declined in the factory (-11,000) and construction (-34,000) sectors. Consistent with the financial market crisis, hiring in the financial sector has turned to firing inasmuch as on year-to-year employment has turned negative (see chart 5). Within financial activities, employment in credit intermediation (which includes mortgage lending and related activities) continued to decline (-13,000), with 75,000 jobs since its peak in February.

Chart 5
All Employees: Financial Activities
 % Change - Year to Year NSA, Thous

All Employees: Construction
 % Change - Year to Year NSA, Thous



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Excluding the expansion of government payrolls (+30,000), private sector employment increased 64,000. Health care jobs rose (+15,000), professional and business services hiring increased (+30,000), retail employment advanced (24,000). The increase in seasonally-adjusted retail employment looks suspicious and might have been influenced by Thanksgiving occurring earlier this year.

On a year-to-year basis, hourly earnings increased 0.5% in November putting the year-to-year increase at 3.8%, not very different from the trend we have seen in recent months. Hourly earnings continue to show a deceleration from the peak reading of 4.28% in December 2006. The 0.2% increase in the manufacturing man-hours index should translate into a small increase in factory production in November.

Conclusion – The hawks have the headlines of the employment report, the threat from higher inflation due to rising oil prices, and the new plan to relieve resets of subprime mortgages at higher rates to defend their position and hold the federal funds rate at 4.50%. The doves have the details of the employment report pointing to weakness in hiring on a trend basis, the continuing widening of credit market spreads (see charts 6 and 7), rising foreclosures, increasing defaults on auto loans, declining consumer confidence, and the unsavory manifestations of the credit market crisis with the fund that was frozen in Florida as an example. A lively debate at the December 11 FOMC is nearly certain. Bernanke last week noted that the Federal Reserve “*is following the evolution of financial conditions carefully, with particular attention to the question of how strains in financial markets might affect the broader economy.*” This statement with Kohn echoing similar concerns supports expectations of a lower federal funds rate on December 11. The compromise is likely to be lowering the federal funds rate 25 basis points to 4.25% and a 50 bps cut in the discount rate to 4.50%.

Chart 6
Indicators of Market Stress - Short-term
 6/1/07 - 12/05/07

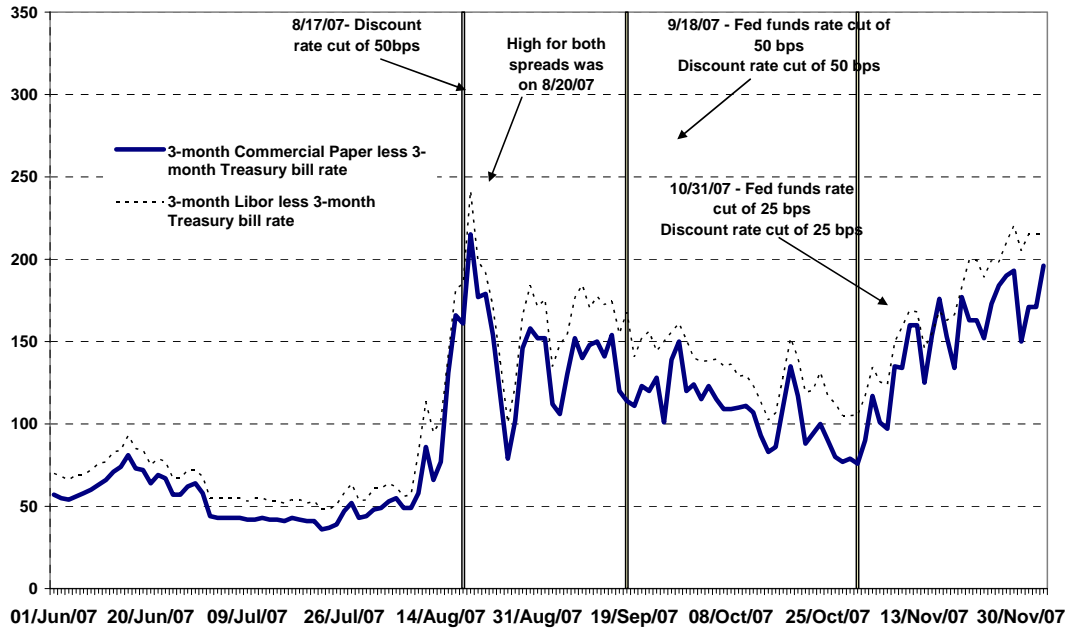
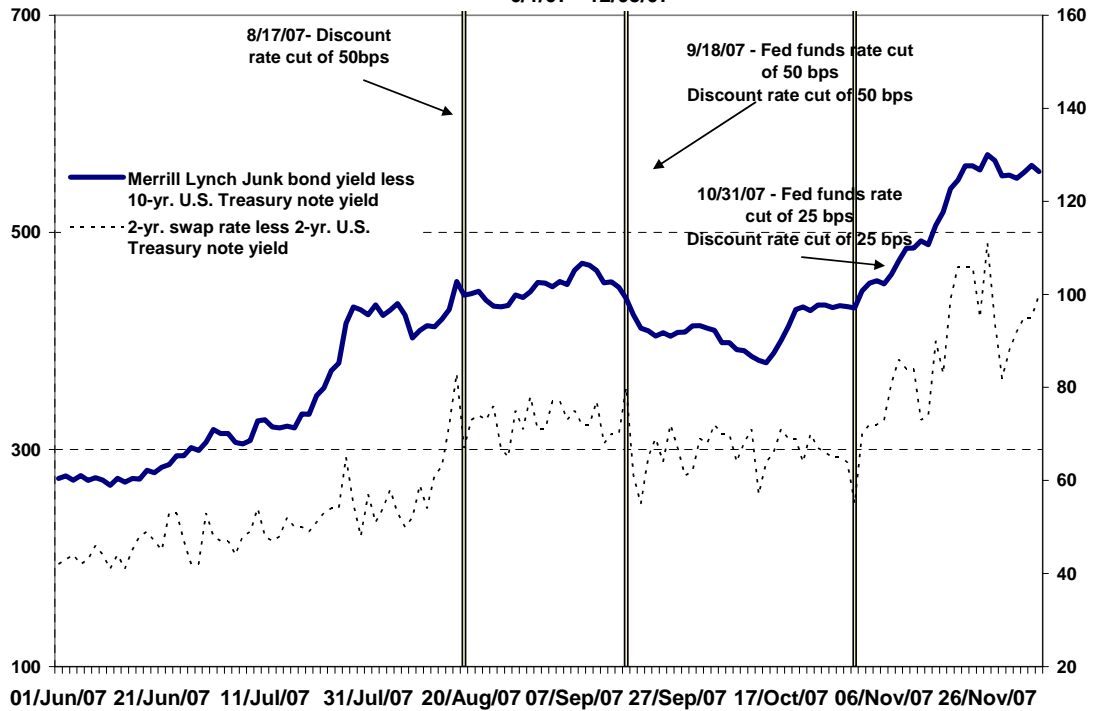


Chart 7
Indicators of Market Stress - Long-term
 6/1/07 - 12/05/07



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