

DAILY GLOBAL  
COMMENTARY

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**Fed on Hold as Far as the Eye Can See**

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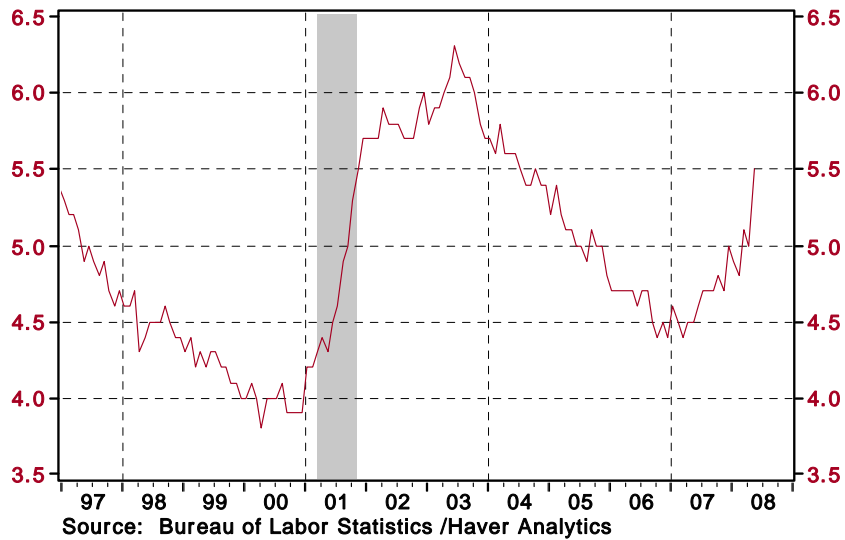
**Civilian Unemployment Rate:** 5.5% in May vs. 5.0% in April**Payroll Employment:** -49,000 in May vs. -28,000 in April, net loss of 16,000 jobs after revisions of payroll estimates for March and April.**Hourly earnings:** +5 cent to \$17.94, 3.46% yoy change vs. 3.47% yoy change in April; cycle high was 4.28% yoy change in Dec. 2006.**HIGHLIGHTS OF THE MAY EMPLOYMENT REPORT**

	<u>Dec-07</u>	<u>Jan-08</u>	<u>Feb-08</u>	<u>Mar-08</u>	<u>Apr-08</u>	<u>May-08</u>
<b>Household Survey</b>						
Chg. in Civilian Labor Force (000)	38	-42	-450	410	173	577
Chg. in Civilian Employed (000)	-436	37	-255	-24	362	-285
Civilian Unemployment Rate	5.0	4.9	4.8	5.1	5.0	5.5
Participation Rate	66.0	66.1	65.9	66.0	66.0	66.2
Employment-Population ratio	62.7	62.9	62.7	62.6	62.7	62.6
<b>Establishment Survey</b>						
Chg. in Total Nonfarm Payrolls (000)	41	-76	-83	-88	-28	-49
Chg. in Private Nonfarm Payrolls (000)	-14	-79	-109	-103	-40	-66
Chg. in Manufacturing Payrolls (000)	-22	-35	-47	-46	-49	-26
Chg. in Services - Private Sector (000)	59	-10	-18	-24	60	-9
Chg. in Government payrolls (000)	55	3	26	15	12	17
<b>Total Workweek (Hours)</b>						
Manufacturing Workweek (Hours)	41.1	41.1	41.1	41.2	41.0	41.0
Manufacturing Overtime (Hours)	4.0	4.0	4.0	4.0	4.0	3.8
<b>Average Hourly Earnings</b>						
Average Hourly Earnings	17.70	17.75	17.81	17.87	17.89	17.94
Chg. from prior month	0.3%	0.3%	0.3%	0.3%	0.1%	0.3%
Chg. from year ago	3.7%	3.7%	3.7%	3.7%	3.5%	3.5%
<b>Average Weekly Earnings</b>						
Average Weekly Earnings	598.26	598.18	600.20	604.01	602.89	604.58
Chg. from prior month	0.3%	0.0%	0.3%	0.6%	-0.2%	0.3%
Chg. from year ago	3.4%	3.4%	3.7%	3.3%	3.2%	3.2%
<b>Index of Aggregate Weekly Hours:</b>						
Chg. from prior month in Total Index	0.1%	-0.4%	-0.1%	0.3%	-0.4%	-0.1%
Chg. from prior month in Mfg. Index	-0.6%	-0.1%	-0.4%	-0.1%	-1.0%	-0.2%

**Household Survey** – The unemployment rate rose to 5.5% in May from 5.0% in April, a 1.1% jump in the unemployment rate from a cycle low of 4.4% in March 2007. Although the unemployment rate for teenagers rose to 18.7% from 15.4% in April and gave an additional lift to the overall jobless rate, the unemployment rate of adult men (4.9% vs. 4.6% in April) and women (4.8% vs. 4.3% in April) also posted noticeable increases.

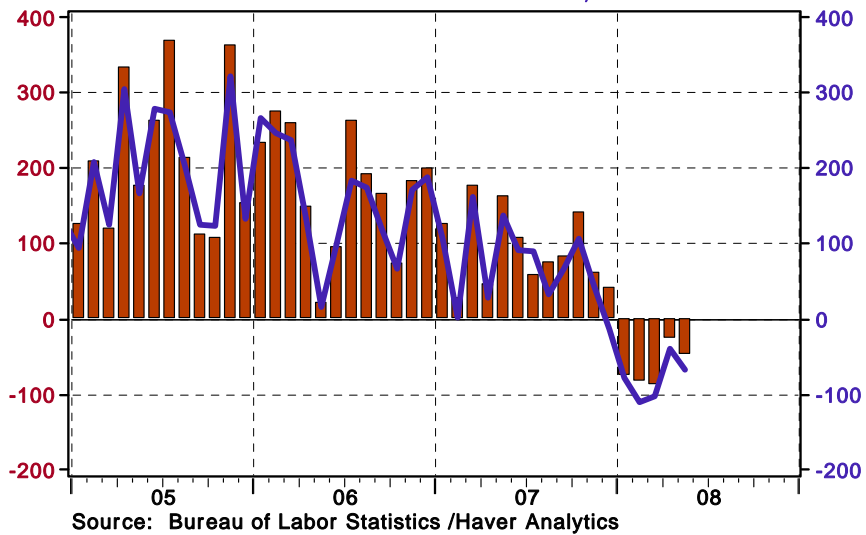
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Chart 1  
**Civilian Unemployment Rate: 16 yr +**  
 SA, %



**Establishment Survey** – Nonfarm payrolls dropped 49,000 in May, following a loss of 28,000 jobs in April. Year-to-date, payroll employment has fallen 324,000 and in the private sector payrolls have declined 397,000 in the last six months.

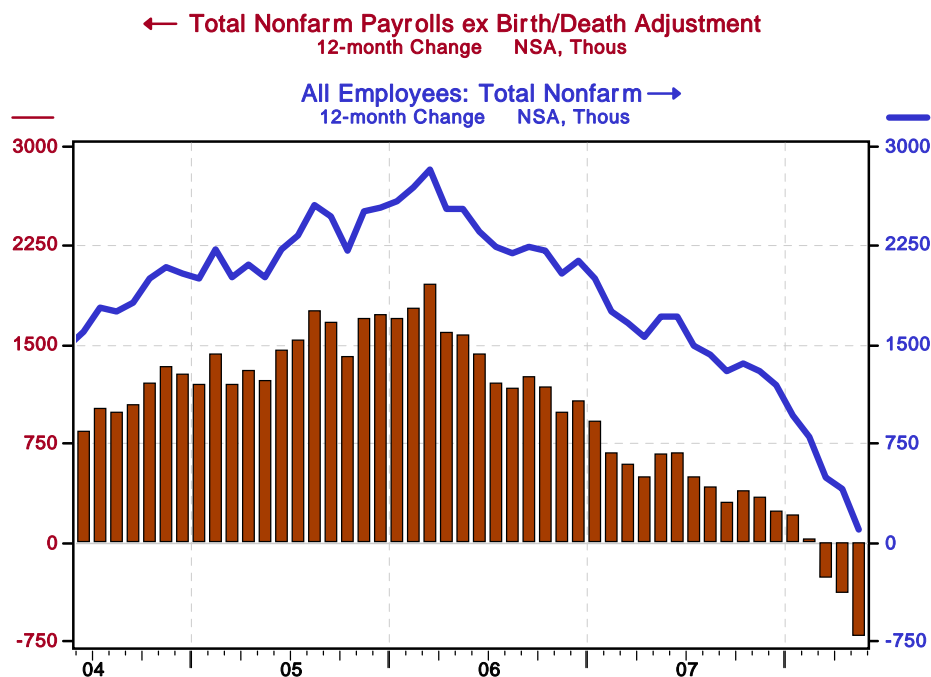
Chart 2  
**All Employees: Total Nonfarm**  
 Difference - Period to Period SA, Thous  
**All Employees: Total Private Industries**  
 Difference - Period to Period SA, Thous



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On a year-to-year basis, payroll employment **has risen 104,000**. This is largely due to the birth/death adjustment of the Labor Department that accounts for net new jobs from the establishment and closing of businesses. Excluding birth/death adjustment, a total of **726,000 jobs have been lost**. Therefore, employment conditions are weaker than what is implied by official payroll numbers.

Chart 3

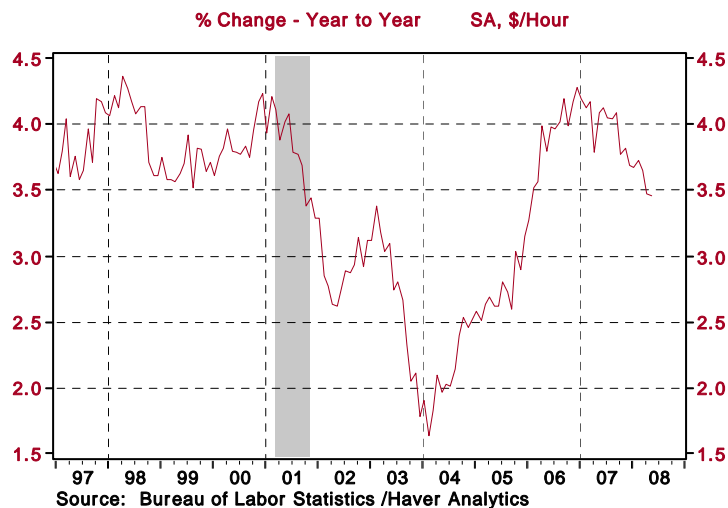


In May, hiring declined in construction (-34,000), manufacturing (-26,000), retail trade (-27,000), temporary help (-29,600), and professional and business services (-39,000). Construction employment has dropped 475,000 since the peak in September 2006. Factory job losses have averaged 41,000 jobs in the first five months of the year compared with an average loss of 22,000 jobs in 2007. Employment in the health care industry is the only private sector component showing job gains (+33,900 in May and +382,700 in the past year). Government employment increased 17,000 in May, with a gain of 73,000 in employment in the first five months of the year.

Hourly earnings rose 5 cents to \$17.94 in May, putting the year-to-year increase at 3.46%, virtually unchanged from the prior month. These numbers indicate only a small increase in personal income during May. The manufacturing man-hours index declined 0.2% in May, which is indicative of a reduction in industrial production in May after a 0.7% drop in April.

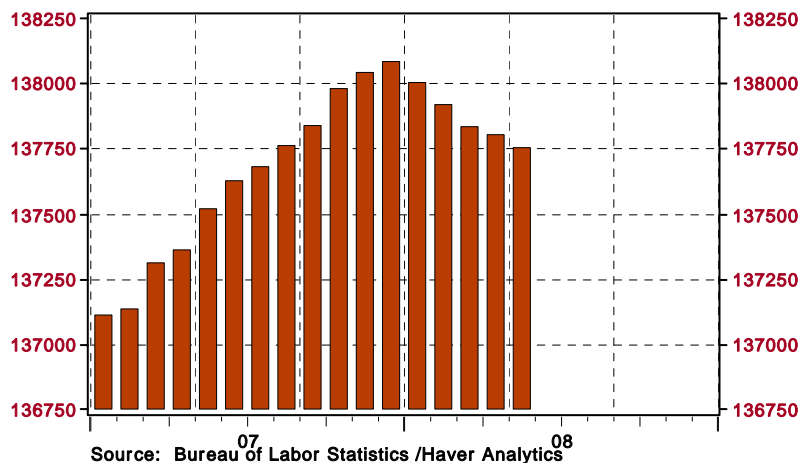
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Chart 4  
Average Hourly Earnings: Total Private Industries



**Conclusion** – The futures market projects a higher federal funds rate at the end of the year, with slightly less conviction in the past week. Fed Presidents Lacker and Plosser were both focused on the importance of not losing sight of the goal of containing inflation. By contrast, the information from today’s employment report supports expectations of a weaker economy and a reduced priority for inflation. A steady federal funds rate in the months ahead is the most likely case. Important conclusions to draw after today’s report are as follows. **First**, the labor market is under severe stress, firms have stopped expanding payrolls, no ambiguity here. **Second**, the National Bureau of Economic Research (NBER) could take several more months to declare an official onset of a recession, but there is no doubt the U.S. economy is experiencing one. Nonfarm payrolls, one of the measures the NBER uses to date business cycles, peaked in December 2007 (see chart 5).

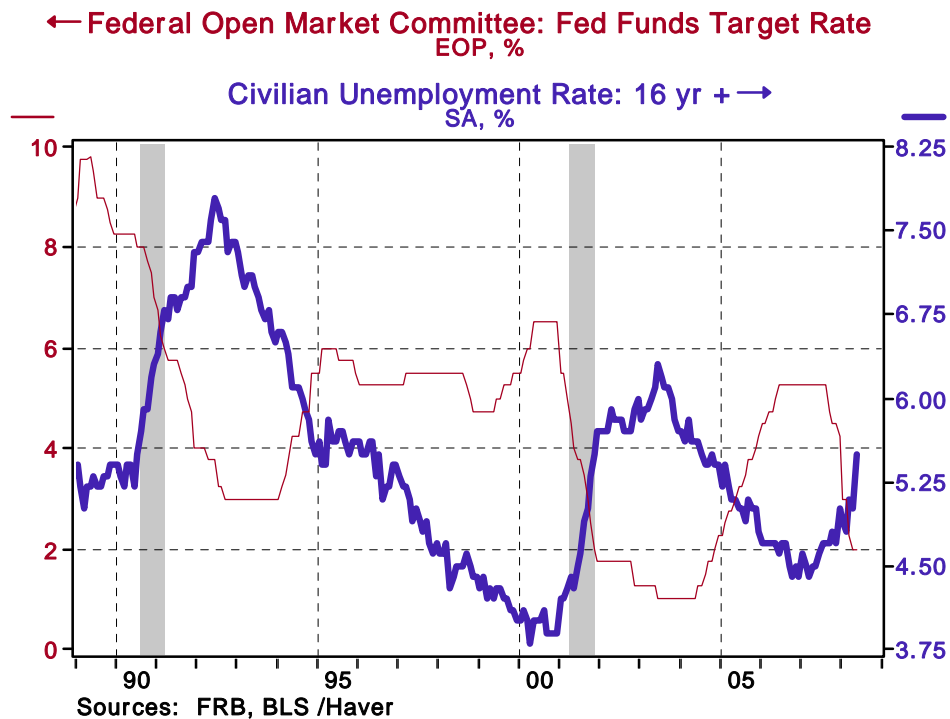
Chart 5  
All Employees: Total Nonfarm  
SA, Thous



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**Third and more importantly**, if history is any guide, the Fed will not raise the federal funds rate until the unemployment rate *falls* (see chart 6). The unemployment rate has not even peaked yet, so considerations of a higher federal funds rate by year-end appear far-fetched.

Chart 6



The June 24-25 FOMC meeting is most likely to be contentious given the extent of dissent at the Fed that has surfaced in recent days. But, the FOMC is in no position to consider any changes in monetary policy in light of the nature of recent economic data published.

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