

DAILY GLOBAL  
COMMENTARY

Northern Trust  
Global Economic Research  
50 South LaSalle  
Chicago, Illinois 60603  
northerntrust.com

## June 2008 Employment Situation: The Fed is in a Tight Spot, but Most Likely to Stand Pat in the Near Term

July 3, 2008

**Civilian Unemployment Rate:** 5.5% in June vs. 5.5% in May

**Payroll Employment:** -62,000 in June vs. -62,000 in May, net loss of 52,000 jobs after revisions of payroll estimates for April and May.

**Hourly earnings:** +6 cents to \$18.01, 3.4% yoy change vs. 3.5% yoy change in May; cycle high was 4.28% yoy change in Dec. 2006.

Asha G. Bangalore  
agb3@ntrs.com

### HIGHLIGHTS OF THE JUNE 2008 EMPLOYMENT REPORT

	<u>Jan-08</u>	<u>Feb-08</u>	<u>Mar-08</u>	<u>Apr-08</u>	<u>May-08</u>	<u>Jun-08</u>
<b>Household Survey</b>						
Chg. in Civilian Labor Force (000)	-42	-450	410	173	577	-144
Chg. in Civilian Employed (000)	37	-255	-24	362	-285	-155
Civilian Unemployment Rate	4.9	4.8	5.1	5.0	5.5	5.5
Participation Rate	66.1	65.9	66.0	66.0	66.2	66.1
Employment-Population ratio	62.9	62.7	62.6	62.7	62.6	62.4
<b>Establishment Survey</b>						
Chg. in Total Nonfarm Payrolls (000)	-76	-83	-88	-67	-62	-62
Chg. in Private Nonfarm Payrolls (000)	-79	-109	-103	-91	-91	-91
Chg. in Manufacturing Payrolls (000)	-35	-47	-46	-52	-22	-33
Chg. in Services - Private Sector (000)	-10	-18	-24	18	-37	-22
Chg. in Government payrolls (000)	3	26	15	24	29	29
<b>Total Workweek (Hours)</b>						
Manufacturing Workweek (Hours)	41.1	41.1	41.2	41.0	40.9	40.8
Manufacturing Overtime (Hours)	4.0	4.0	4.0	4.0	3.9	3.9
<b>Average Hourly Earnings</b>						
	17.75	17.81	17.87	17.89	17.95	18.01
Chg. from prior month	0.3%	0.3%	0.3%	0.1%	0.3%	0.3%
Chg. from year ago	3.7%	3.7%	3.7%	3.5%	3.5%	3.4%
<b>Average Weekly Earnings</b>						
	598.18	600.20	604.01	604.68	604.92	606.94
Chg. from prior month	0.0%	0.3%	0.6%	0.1%	0.0%	0.3%
Chg. from year ago	3.4%	3.7%	3.3%	3.5%	3.2%	2.8%
<b>Index of Aggregate Weekly Hours:</b>						
Chg. from prior month in Total Index	-0.4%	-0.1%	0.3%	-0.1%	-0.4%	-0.1%
Chg. from prior month in Mfg. Index	-0.1%	-0.4%	-0.1%	-1.0%	-0.3%	-0.5%

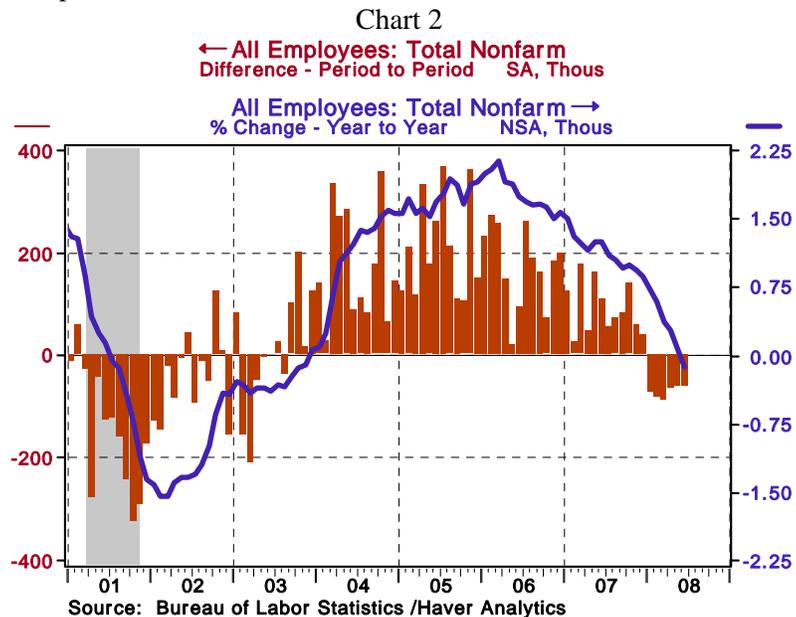
**Household Survey** – The civilian unemployment rate was unchanged at 5.5% in June. The BLS also publishes information about marginally attached persons to the labor force. These folks are either discouraged workers or they want to work and are available but are not working and have looked for work in the recent past. If we sum the number officially unemployed, the number of marginally attached workers, and the number working part-time for economic reasons we obtain a

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

more comprehensive measure of unemployment. This broader measure of unemployment rose to 9.9% in June (see chart 1) which is significantly higher than the 8.3% rate reported in June 2007.



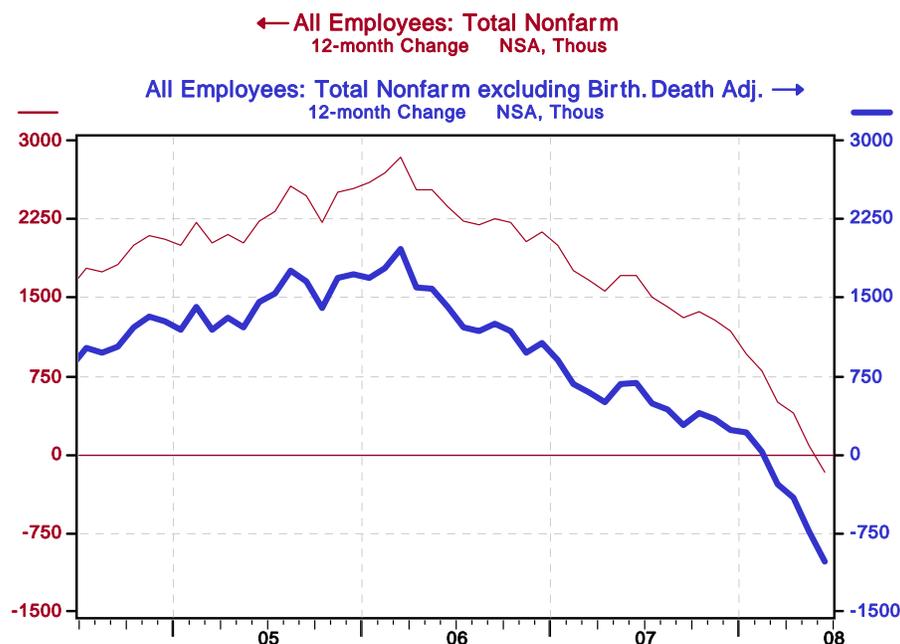
**Establishment Survey** – Nonfarm payrolls fell 62,000 in June, following a revised loss of 62,000 jobs in May (previously reported as a loss of 49,000 jobs). There was a net loss of 52,000 after revisions of estimates for April and May. In the first six months of the year, there has been a total loss of 438,000 jobs in the country. On a year-to-year basis, payroll employment declined 0.1% in June, the first drop since November 2003.



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

The Birth/Death adjustment factor has given an artificial boost to nonfarm payrolls as the economy has entered a recessionary phase. The inclusion of the birth/death adjustment process (the adjustment is a consideration of payroll changes occurring as small businesses are established and destroyed each month) has resulted in a decline of 167,000 seasonally unadjusted payroll jobs in the twelve months ended June 2008. Excluding the birth/death adjustment factor, payrolls have dropped 1.019 million in the same twelve-month period (see chart 3).

Chart 3



Among the major components of employment, factory employment fell 33,000 in June, putting the number of factory jobs lost over the last six months at 353,000. Construction payrolls declined 43,000 in June. A total of 528,000 construction jobs have been lost since the peak in September 2006. Service sector employment moved up only 7,000 in June due to widespread losses in various sectors – retail (-8,000), professional and business services (-51,000), finance, insurance, and real estate (-10,000). Health care employment advanced 15,000 and government payrolls rose 29,000 in June.

Hourly earnings rose 0.3% in June, with the year-to-year change at 3.4%. Payroll numbers and earnings data suggest a small increase in personal income in June. The muted trend of earnings (see chart 4) gives the Fed more confidence in holding the federal funds rate steady rather than raising it because there is no evidence of a wage-price spiral developing. The 0.5% drop in the manufacturing man-hours index bodes poorly for industrial production in June.

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

Chart 4

**Average Hourly Earnings: Total Private Industries**



**Conclusion** – There is no doubt about the weak status of the U.S economy. However, the Fed is in an awkward position because the potential of a depreciating dollar and the upward trend of inflation prevent further easing of monetary policy. There is a small risk that the Fed may have to raise the federal funds rate to maintain its credibility if inflation and/or the dollar fail to show signs of improvement. For now, that scenario carries a significantly lower probability than downside risks to economic growth.

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.