

DAILY GLOBAL COMMENTARY

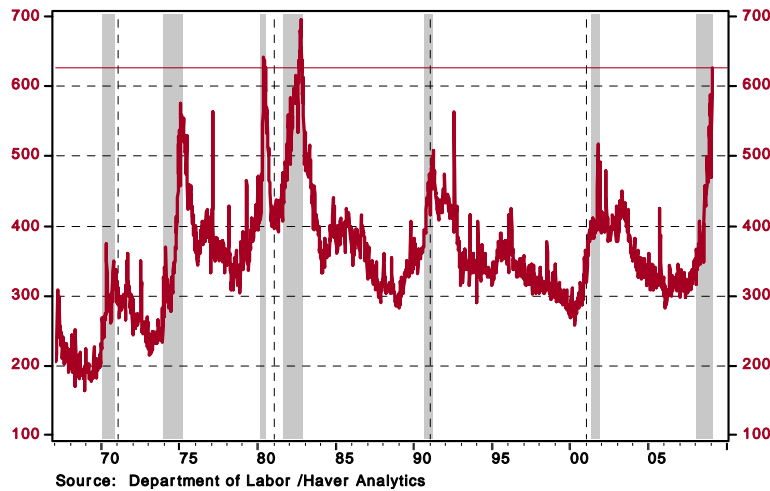
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The Labor Market Situation is Dismal
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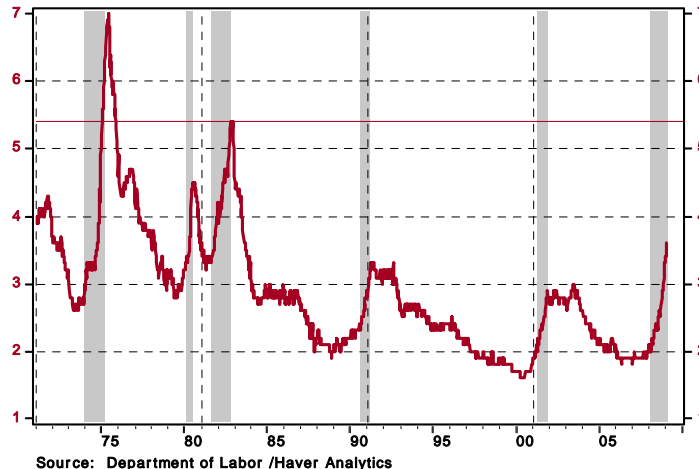
Initial jobless claims increased 35,000 to 626,000 during the week ended January 31. This is a cycle high and the largest number of applicants filing for unemployment insurance since October 1982.

Chart 1
Unemployment Insurance: Initial Claims, State Programs
SA, Thous



However, we need to evaluate this information in the context of the growth of the labor force. The insured unemployment rate, which takes this into consideration, held steady at 3.6% vs. a high of 5.4% in late-1982. From this comparison it follows that the labor market situation is dismal but less severe than conditions that prevailed in 1982.

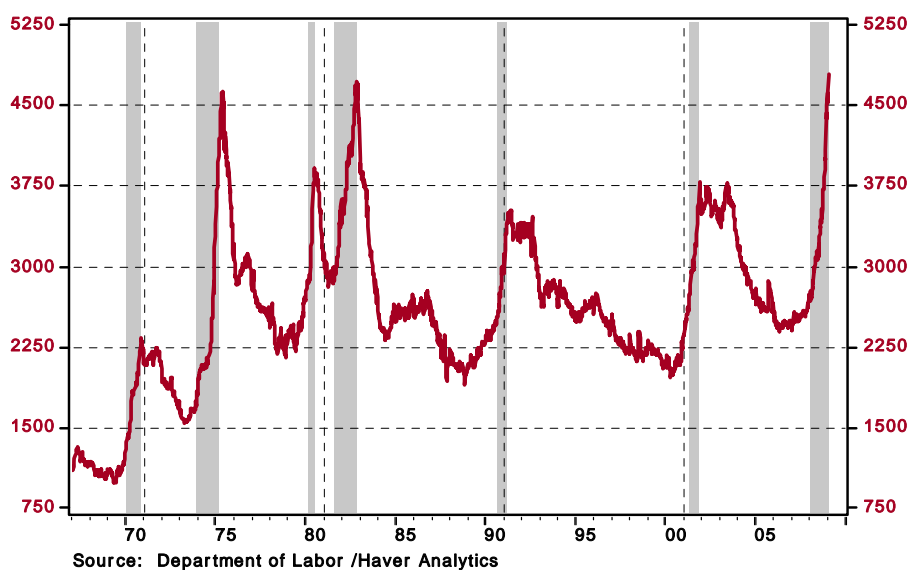
Chart 2
Insured Unemployment Rate: Percent of Covered Employment
SA, %



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Continuing claims, which lag initial claims by one week, increased 20,000 to 4.788 million. Continuing claims in the prior two weeks had advanced 102,000 and 151,000. The bottom line is layoffs are rising rapidly. The January employment report, to be published on February 6, is most likely to offer more discouraging employment news. Our forecast is a loss of 525,000 payroll jobs and an unemployment rate of 7.4% (jobless rate was 7.2% in December 2008).

Chart 3
Insured Unemployment, State Programs
 SA, Thous

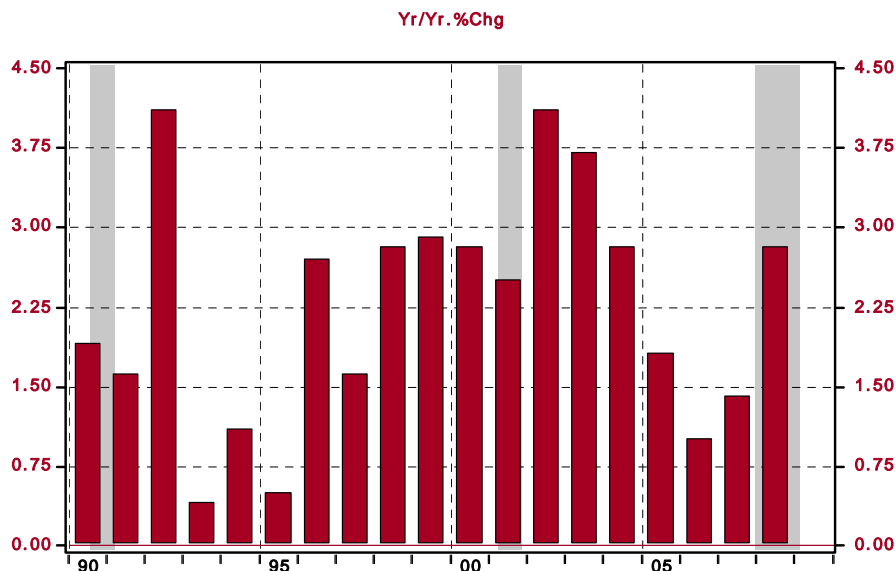


Productivity of the Economy Advanced in 2008

Productivity of the U.S. economy increased 3.2% in the fourth quarter, putting the annual average at 2.8%. Hours worked (-8.4%) declined faster than output (-5.5%) in the fourth quarter resulting in a gain in productivity. Unit labor costs rose 1.8% vs. a 2.6% increase in the third quarter. Unit labor costs increased only 0.5% in 2008, the smallest increase since 2003. The main message is that labor costs are not problematic at the present time.

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Chart 4
Nonfarm Business Sector: Output per Hour of All Persons



Source: Bureau of Labor Statistics /Haver Analytics

Productivity and Costs

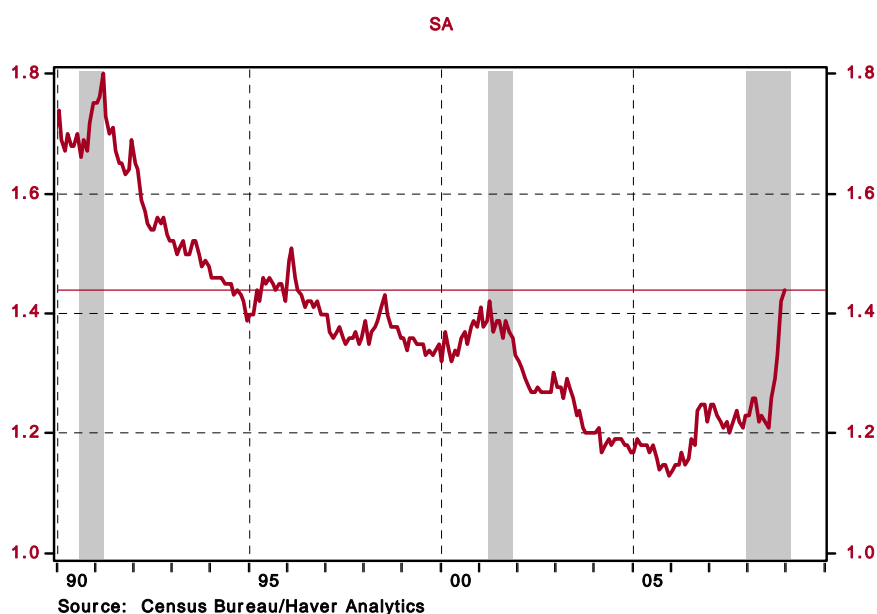
	percent change from previous quarter at annual rate				
	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4
Productivity	0.8	2.6	3.6	1.5	3.2
Output	-0.7	0.9	2.8	-1.9	-5.5
Hours	-1.6	-1.7	-0.8	-3.4	-8.4
Unit labor costs	4.5	1.2	-2.6	2.6	1.8
Hourly Compensation	5.3	3.8	0.9	4.2	5.0
Real hourly compensation	0.3	-0.4	-3.9	-2.4	15.6
Implicit Price Deflator	2.1	2.1	0.9	4.7	-0.5
	percent change from corresponding quarter of previous year				
	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4
Productivity	2.7	3.3	3.2	2.2	2.7
Output	2.4	2.8	2.1	0.3	-1.0
Hours	-0.3	-0.5	-1.1	-1.8	-3.6
Unit labor costs	0.9	0.0	0.1	1.4	0.7
Hourly Compensation	3.6	3.3	3.3	3.6	3.5
Real hourly compensation	-0.4	-0.8	-0.9	-1.6	1.9
Implicit Price Deflator	2.0	1.6	1.5	2.4	1.8

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Factory Sector – Inventories/Shipments Ratio Keeps Advancing

Factory orders fell 3.9% in December following a 6.5% drop in November, reflecting a reduction in orders of both durable (-3.0%) and non-durable goods (-4.8%). Inventories (-1.4%) and shipments (-2.9%) also declined in December. The most important aspect of the report is the inventories-shipments ratio which rose to 1.44 in December, up from 1.29 in September and 1.23 in December 2008. The upward trend of this ratio is consistent with the underlying weakness of the economy. The December reading is the highest since April 1996.

Chart 5
Mfrs' Inventories/Shipments Ratio: All Manufacturing Industries



Factory Orders, Shipments and Inventories

	Sep-2008	Oct-2008	Nov-2008	Dec-2008
Factory Orders (% change m-m)				
Total	-3.1	-6.0	-6.5	-3.9
Durable	0.0	-8.5	-4.0	-3.0
Non-Durable	-5.8	-3.8	-8.7	-4.8
Shipments (% change m-m)	-3.1	-3.6	-6.5	-2.9
Inventories (% change m-m)	-0.8	-0.6	-0.5	-1.4
Inventories/Shipment Ratio	1.29	1.33	1.42	1.44
Unfilled Orders (% change m-m)	0.2	-0.9	-0.9	-1.4

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