

DAILY GLOBAL
COMMENTARY

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June Labor Market Report – Details Less Bearish than Headlines

July 2, 2009

Civilian Unemployment Rate: 9.5% in June vs. 9.4% in May, cycle low is 4.4% in March 2007.

Payroll Employment: -467,000 in June vs. -322,000 in May, net upward revision of 8,000 new jobs after revisions of payroll estimates for April and May.

Hourly earnings: \$18.53, unchanged, 2.7% yoy change vs. 3.0% yoy change in May, cycle high is 4.28% yoy change in Dec. 2006.

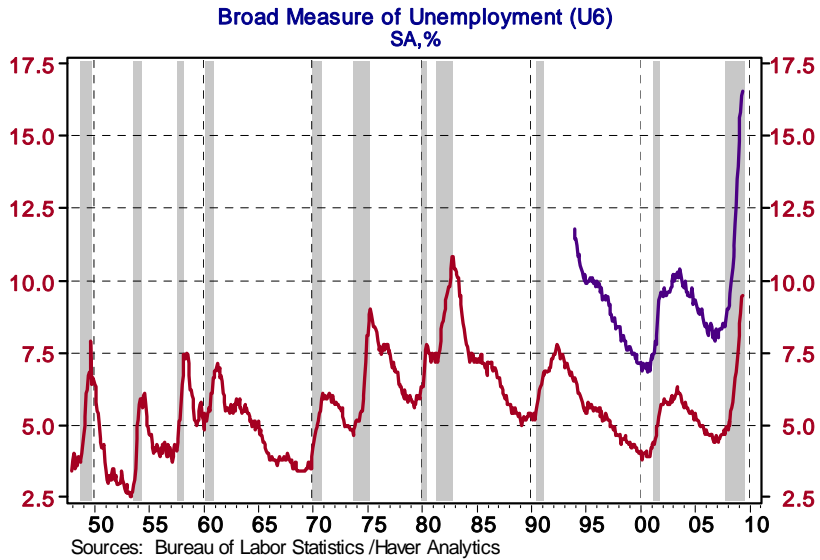
HIGHLIGHTS OF JUNE 2009 EMPLOYMENT REPORT

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Household Survey						
Chg. in Civilian Labor Force (000)	-731	498	-166	683	350	-155
Chg. in Civilian Employed (000)	-1239	-351	-861	120	-437	-374
Civilian Unemployment Rate	7.6	8.1	8.5	8.9	9.4	9.5
Participation Rate	65.5	65.6	65.5	65.8	65.9	65.7
Employment-Population ratio	60.5	60.3	59.9	59.9	59.7	59.5
Establishment Survey						
Chg. in Total Nonfarm Payrolls (000)	-741	-681	-652	-519	-322	-467
Chg. in Private Nonfarm Payrolls (000)	-749	-688	-648	-592	-312	-415
Chg. in Manufacturing Payrolls (000)	-262	-172	-172	-150	-156	-136
Chg. in Services - Private Sector (000)	-344	-393	-336	-325	-97	-192
Chg. in Government payrolls (000)	8	7	-4	73	-10	-52
Total Workweek (Hours)						
Manufacturing Workweek (Hours)	39.8	39.5	39.4	39.6	39.4	39.5
Manufacturing Overtime (Hours)	2.9	2.7	2.6	2.7	2.8	2.8
Average Hourly Earnings						
Chg. from prior month	0.2%	0.2%	0.2%	0.0%	0.2%	0.0%
Chg. from year ago	3.7%	3.5%	3.4%	3.1%	3.0%	2.7%
Average Weekly Earnings						
Chg. from prior month	0.2%	0.2%	-0.4%	0.0%	0.2%	-0.3%
Chg. from year ago	2.5%	2.0%	1.2%	1.0%	1.2%	0.9%
Index of Aggregate Weekly Hours:						
Chg. from prior month in Total Index	-0.7%	-0.6%	-1.2%	-0.6%	-0.3%	-0.8%
Chg. from prior month in Mfg. Index	-2.7%	-2.3%	-1.9%	-1.0%	-1.9%	-1.2%

Household Survey – The jobless rate inched up to 9.5% in June from 9.4% in May. The unemployment rate is a lagging indicator which is most likely to peak in 2010. In June, the broad measure of unemployment (includes those working part-time because they cannot find full-time jobs and those not looking for work but want and are available in addition to those included in the tally of unemployed in the headline jobless rate) increased to 16.5% from 16.4% in the prior month.

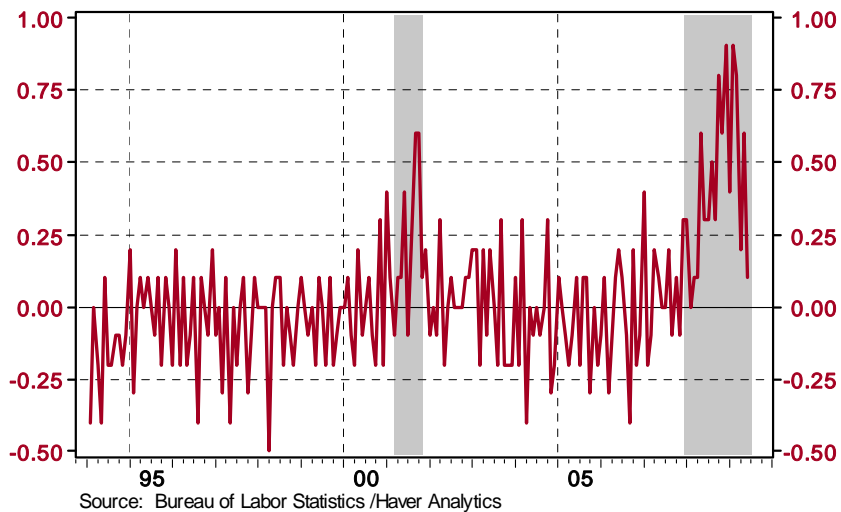
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Chart 1
Civilian Unemployment Rate: 16 yr +
 SA, %



The important aspect to note is that the pace of gains in the broad jobless rate has slowed (see chart 2).

Chart 2
Broad Measure of Unemployment (U6)
 Difference - Period to Period SA, %



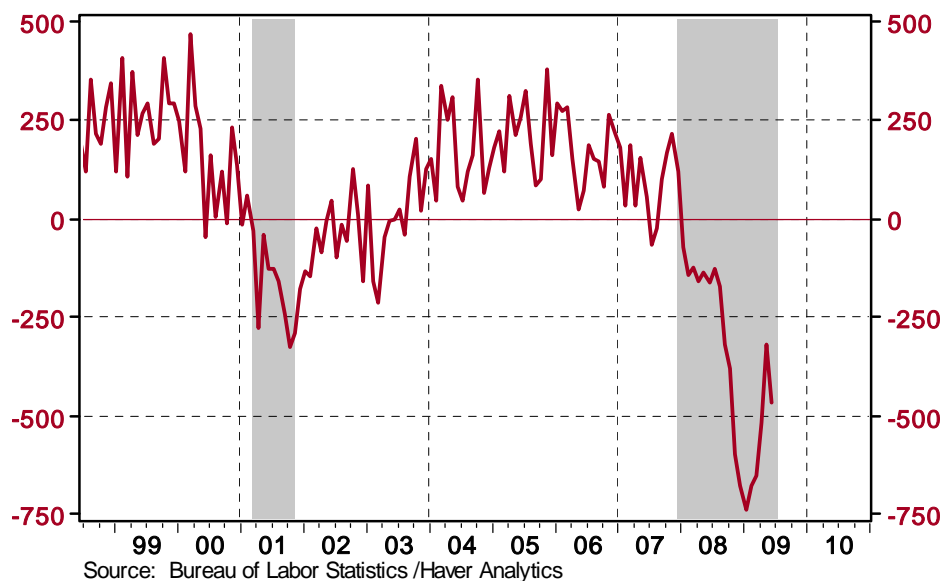
The Supervisory Capital Assistance Program (stress test) assumes an 8.4% and 8.8% annual average unemployment rate in 2009 and 2010 under the baseline scenario. The more adverse alternate scenario assumes jobless rate averages of 8.9% and 10.3%, respectively, in 2009 and 2010. The average unemployment rate in the first six months of 2009 is 8.7%.

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Establishment Survey – Nonfarm payrolls fell 467,000 in May after an upwardly revised 322,000 decline in May. The April and May revisions of payroll employment led to a net increase of 8,000 jobs. The headline number includes a loss 49,000 government jobs related to the 2010 Census.

Chart 3
All Employees: Total Nonfarm

Difference - Period to Period SA, Thous



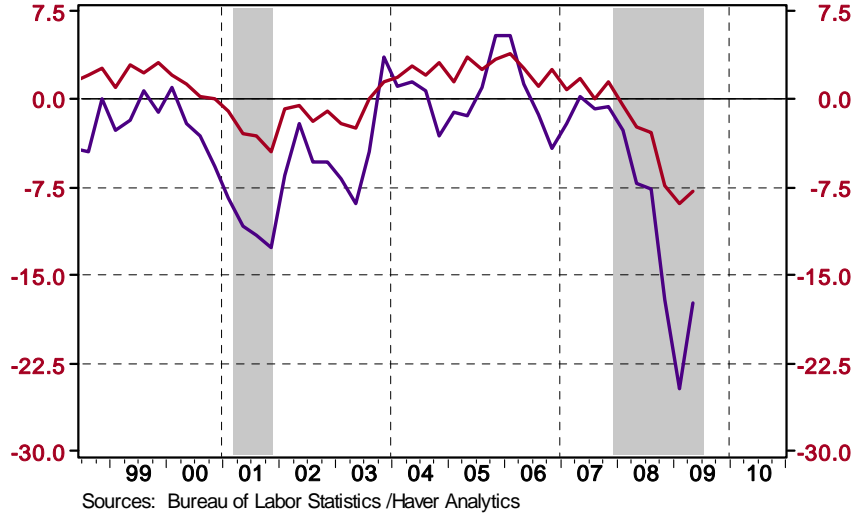
Highlights of Other Job Losses:

- Factory jobs: -136,000 in June vs. -156,000 in May.
- Autos: -26,500 in June vs. -27,400 in May
- Construction jobs: -79,000 in June vs. -48,000 in May.
- Service sector jobs: -244,000 in June vs. -107,000 in May.
- Temporary help: -38,000 in June vs. -8,100 in May.
- Retail: -21,000 in June vs. -17,600 in May.
- Financial activities: -30,000 in June vs. -27,000 in May.
- Professional and Business Services: -118,000 in June vs. -48,000 in May.
- Government: -52,000 in June vs. -10,000 in May.

The moderation of weakness in man-hours worked overall (-7.9% in Q2 vs. -8.9% annualized decline in Q1) and in the factory sector (-17.4% in Q2 vs. -24.7% annualized decline in Q1) suggest a decline in real GDP and industrial production, respectively, in the second quarter but at a slower pace compared with the first quarter (see chart 4).

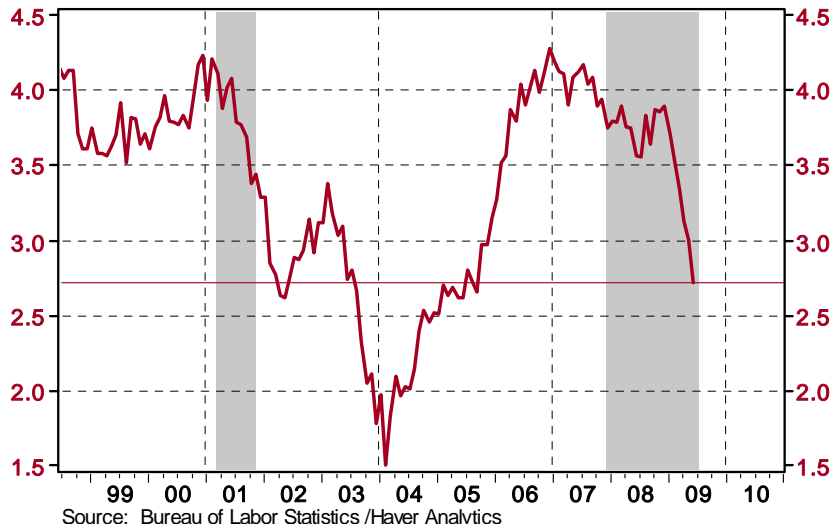
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Chart 4
Aggregate Weekly Hours Index: Total Private Industries
 % Change - Annual Rate SA, 2002=100
Aggregate Weekly Hours Index: Manufacturing
 % Change - Annual Rate SA, 2002=100



The slightly longer factory work week (39.4 hours vs. 39.3 hours in May) is a plus for the Index of Leading Economic Indicators. Hourly earnings held steady at \$18.53 in June, putting the year-to-year increase at 2.7%, a significantly soft trend in earnings (see chart 5). The earnings and payroll data point to a drop in the wage and salary component of personal income during June after a robust increase in May supported by provisions of the fiscal stimulus package.

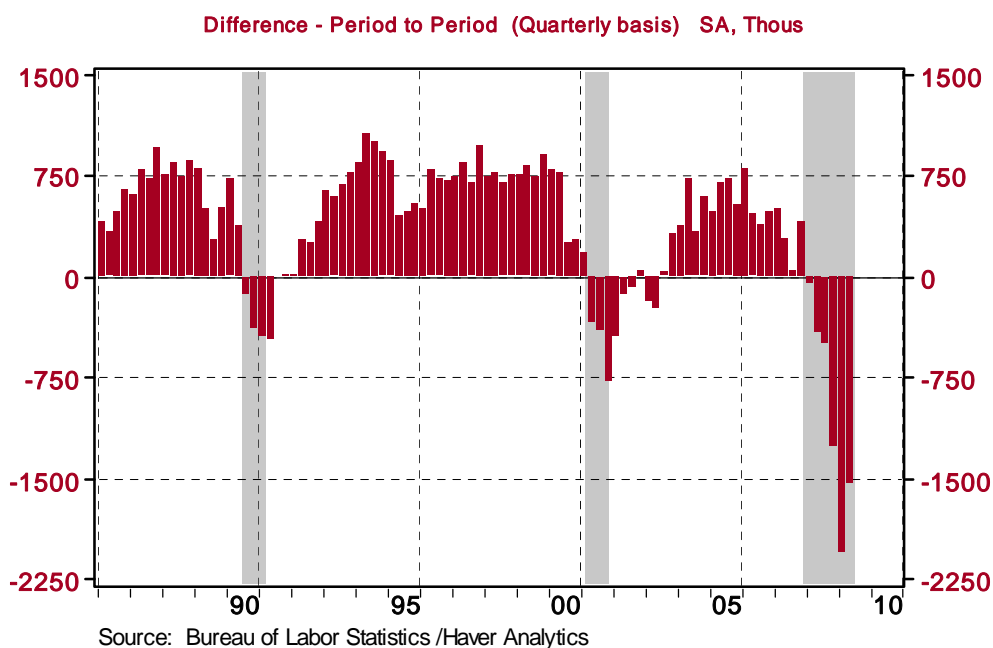
Chart 5
Average Hourly Earnings: Total Private Industries
 % Change - Year to Year SA, \$/Hour



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Conclusion – The path of economic recovery is not a straight line; ups and downs in hiring are part and parcel of the expected trajectory of employment. Stepping back in time, payroll employment showed a firm trend only in 1993 (+2.1 million jobs) although the 1990-1991 recession ended in March 1991. Payroll jobs declined in 1991 (-1.106 million) and rose only 338,000 in 1992, reflecting tepid quarterly gains (see chart 6). After the 2001 recession, hiring gathered momentum only in the fourth quarter of 2003 (see chart 6). Therefore, it is important to note that payroll growth occurs well after a recession has ended. At the present time, the recession has not ended yet and it follows that it is premature to see significant gains in employment in the near term. In fact, it is noteworthy that on a quarterly average basis, payroll employment fell 1.551 million in the second quarter compared with a loss of 2.065 million jobs in the first quarter of 2009.

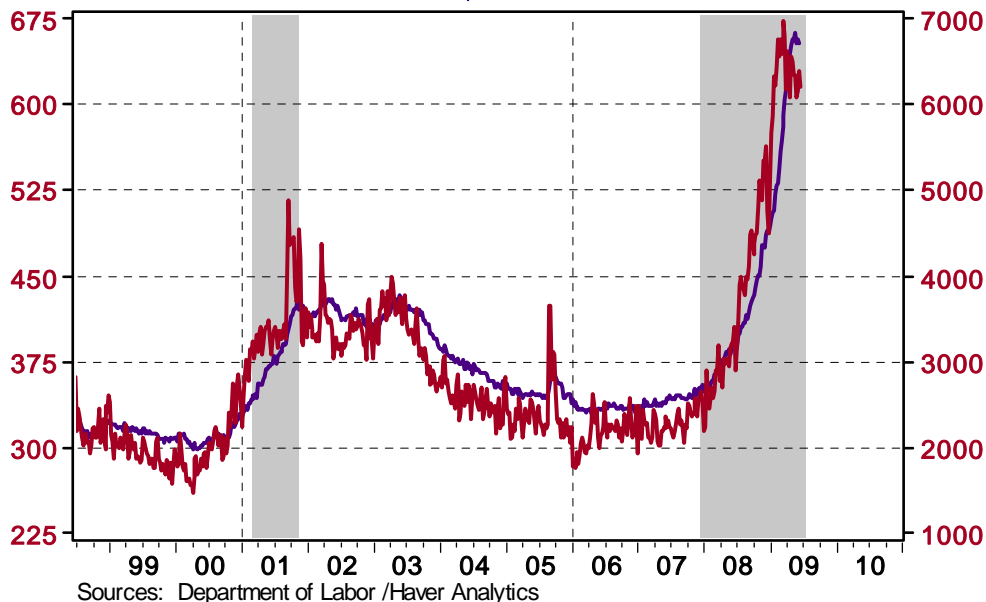
Chart 6
All Employees: Total Nonfarm



The more pertinent indicator of underlying conditions in the labor market is the jobless claims report. Initial jobless claims fell 16,000 to 614,000 during the week ended June 27 and continuing claims, which lag initial claims by one week, declined 53,000 to 6.702 million. Both initial and continuing claims appear to have peaked (see chart 7).

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Chart 7
Unemployment Insurance: Initial Claims, State Programs
 SA, Thous
Continuing Claims, State Programs
 SA, Thous



The conclusion is that labor market conditions remain weak but the pace of job losses has slowed and initial jobless claims, a leading economic indicator, have peaked. This combination suggests that the labor market is improving in the desired direction. The June employment report puts to rest arguments of inflation hawks and supports advocates suggesting a more cautious policy approach so as to not repeat the 1937 episode of tightening monetary and fiscal policy too soon.

*****There will be no Daily Global Commentary published on July 3.**

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