

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Employment Surprise. Was November a Rogue Month? No!

The bears will scream November was a rogue month. The job numbers were just too good. Don't be fooled, they'll warn. Last month was a huge statistical anomaly.

What's our take on the November job numbers? Believe the report. Why? Two reasons. First, when you drill down into the report you see improvements in the labor market across the board. Second, the jobs release has to be viewed within the context of what other indicators are telling us about the economy. And here too, one can see a consistent picture emerge of an economy that is gaining more traction with every month. We'll list those others indicators in a moment.

First, we'll examine November employment release.

- The drop in the unemployment from 10.2% to 10% last month was undoubtedly a stunner. Every demographic group saw their jobless rate decline, with the greatest seen among teenagers. It fell nearly a full percentage point (-0.9 pp). Teenagers are the most vulnerable group during periods of economic weakness, so when their numbers begin to turn with such magnitude we have to take notice.
- Total employment in the household survey surged by an astonishing 227,000 in November, the largest one month gain since April 2008. This is critical since the government computes these numbers by actually calling Americans around the country and asking them if they've found work the last four weeks. Evidently many have and this should not only reinforce future consumer confidence levels but also lead to acceleration

in household spending.

- Another shocker was the announcement that not only did payrolls fell just 11,000 in November, but government revisions the two previous months showed far fewer job losses as well. The initial loss of 190,000 jobs in October has now been scratched to show 111,000, and September's preliminary loss of 179,000 changed to 139,000.

Can you guess where I'm going with this? The average revision over the two months came to 59,500, which means that next month, when the government revises November, they could actually report a **net gain in payroll jobs!!**

- If you break down the payroll survey into sectors, you see an improvement across all industries. Employment in construction fell by 27,000 last month, the smallest drop since August 2008. Jobs in manufacturing declined by 41,000, just a tenth of the pace seen at the start of this year. Employment in retail trade slipped 14,500 in November, the smallest loss in nearly two years (January 2008).

- One sure sign the recovery is gathering more steam can be seen in the average weekly hours worked in the private sector. It jumped from 33.0 in October to 33.2 last month, the largest one-month leap in more than six years. Weekly hours in manufacturing climbed to 40.4 last month, the most in more than a year. Of particular interest to us was overtime, which rose to 3.4 hours, the most in a year.

After shedding 7.3 million jobs in two years, employers are demanding their existing employees work longer and harder now that the business has picked up. It's also why productivity spiked so much in the third quarter. But when you impose overtime on a smaller workforce, it can quickly lead to employee fatigue and that will force employers to consider hiring more people. That process is now underway.

- The number of persons who are working part time because they could not find a suitable full time job also fell in November to 9.24 million, from 9.28 million the month before. It's not much of a decline, of course, and there was even one dissonant statistic in this category. Those working part time because they could "only find part-time work" actually shot up last month to 2.21 million, the largest number ever seen for this subset. We expect November will prove to be peak for this series as labor market conditions improve and present more opportunities for full time work.

- One series that got significantly worse in the jobs report was the length of time people remained out of work. The average number of weeks unemployed climbed to 28.5, with the median number set as 20.1 weeks. Both turned out to be the longest ever recorded. But remember, this is a lagging indicator and not indicative of the dynamics currently underway in the job market.

- Along with the decline in the unemployment rate, there were also fewer discouraged workers. The underemployment rate (listed as U-6 in the release) fell from 17.5% in October to 17.2% last month. With the economy improving since the summer, more Americans are hitting the pavement seeking employment again.

- One of the most sensitive leading indicators of employment is temporary work. From

the moment the last recession ended, which we have dated as last June, temporary employment has accelerated in each of the last four months. It jumped by 52.4 thousand in November, the most in five years and the third largest monthly increase ever. A rise in temp. work is typically followed three months later by a jump in permanent employment.

Bottom Line:

What the latest employment numbers tell us is that companies are under increasing pressure to hire more people. As we noted yesterday in our *Economic Talking Points*: “At some point (current) employees grow tired from working so hard. Exhaustion sets in, morale declines, and quality control is sacrificed. As a consequence, employers are moving to bring on more workers, even if on a temporary basis.”

Now back to the point we first raised above. Is this employment report an outlier? Could the labor market really be improving so quickly? The answer to these questions can come only after evaluating other indicators. Is there a consistency in how they portray the current economic climate?

Absolutely. In the last several weeks, we saw new homes sales jump to the highest level in a year. Purchases of existing homes shot up to the most in nearly three years. Pending home sales have surged by the fastest pace ever. Retail sales continues to climb, and so has consumer spending overall. Claims for unemployment insurance have been consisting falling. Consumer confidence levels have rebounded. Industrial production has been rising for four consecutive months. Companies are rushing to replenish depleted inventories. Exports are now at their highest of the year.

What is presented here is an economy that is gaining more traction --- and employers are taking notice. The only obstacle in the way of a more vigorous recovery is the lack of lending by the banks. That’s why the next critical indicator we’ll track comes out late this afternoon when the Federal Reserve releases its weekly report on bank assets and liabilities. If lenders are willing to make more credit available to the private sector, it will propel economic growth well into 2010 and further accelerate employment in the coming months.