

# THE ECONOMIC OUTLOOK GROUP



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## **ECONOMIC TALKING POINTS**

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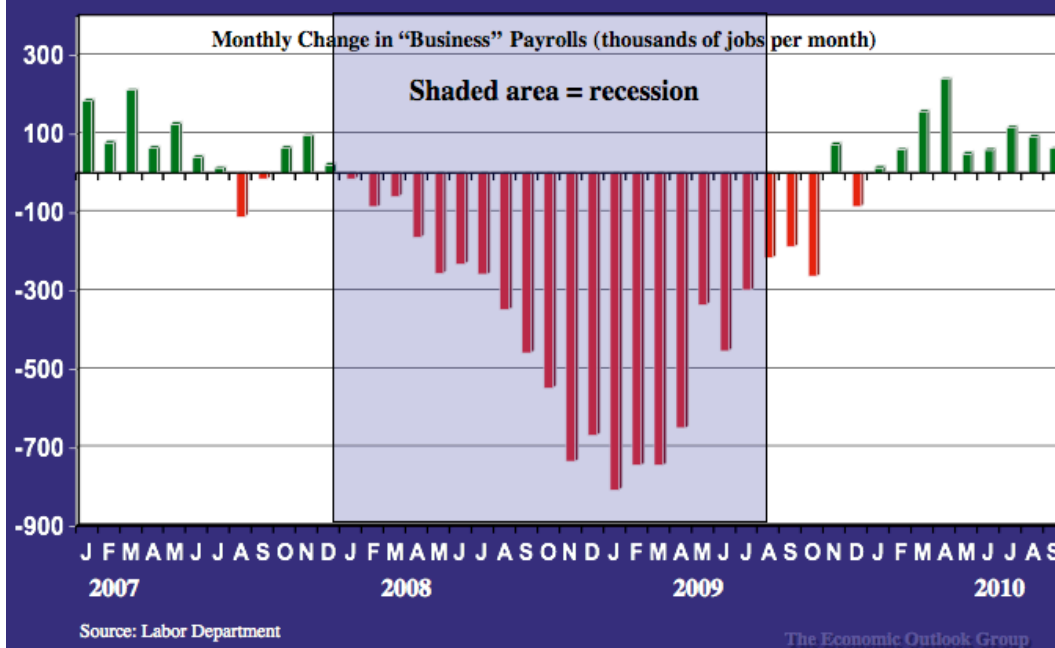
### **September Jobs: Depressing Numbers....and Some Intriguing Clues**

Up to now, there have been two main obstacles to faster economic growth. The first hurdle holding back a more vibrant recovery has been sluggish job growth. It's hard to be optimistic when the jobless rate remains stuck at 9.6% and payrolls fell another 95,000 in September.

The second obstacle is the pervasive uncertainty on what business conditions will be like later this year and in 2011. The economy as a whole, and employment in particular, just can't seem to gain any traction. How can employers make plans about hiring when the future for sales and earnings are so unclear? Adding to this lack of clarity is the November mid-term election and how it will impact future policies on taxes, deficits, and government spending.

So when the jobs report came out this morning, the expectation was essentially more of the same. Indeed, it turned out to be yet another month of anemic job growth in the private sector.

**Companies have been hiring all year!  
Pace of hiring in private sector about to increase.**



But here is the question of the day. What, if anything, does the latest jobs report say about employment trends in the coming months? Sure, on the surface, the numbers look disheartening. But are there any clues buried in this release that can shed light on what employers may do in the months ahead? The answer is yes. There are fresh signs that companies are gearing up to accelerate hiring in the fourth quarter. Moreover, other economic reports out this week appear to corroborate that trend. In fact, we believe private sector hiring in the final three months of the year could well be the strongest of 2010.

How do we arrive at this conclusion?

Let's focus on just the private sector, not total nonfarm payrolls since that includes government hiring and layoffs. If this recovery is to be sustained, we must see a pick up in employment by businesses.

One of the best forward-looking numbers in the jobs report are the average workweek in the private sector, and weekly overtime in manufacturing. Both are holding at the highest levels seen in more than a year. Average weekly hours worked came in again at 34.2, while overtime last month remained at 3 hours for the second consecutive month.

Why is this important?

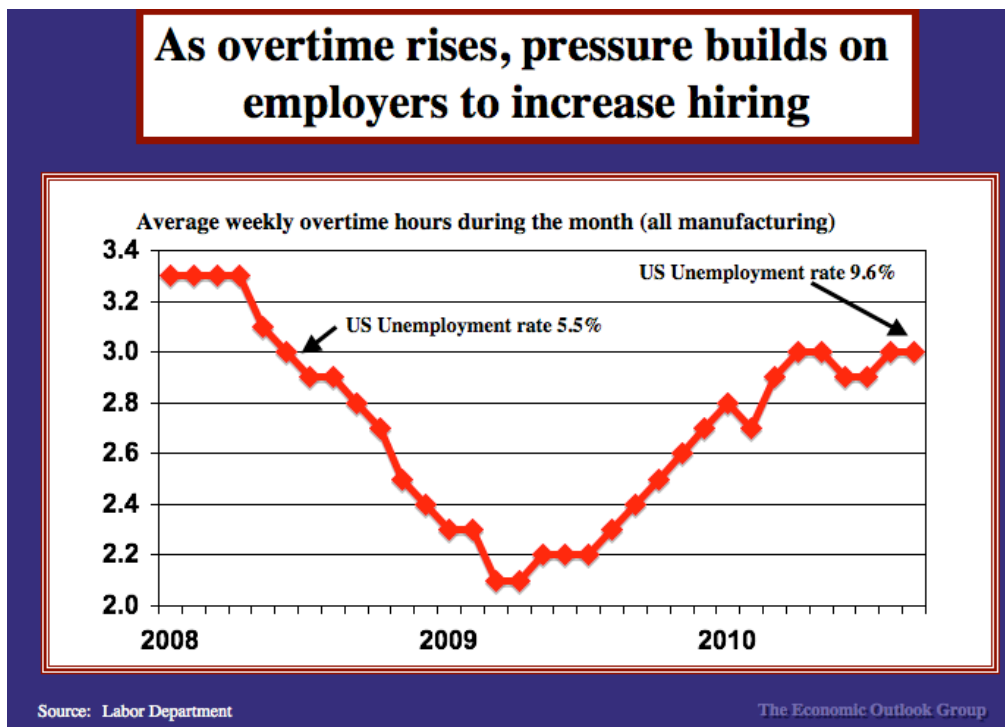
Simple. Since the middle of 2009, the US economy has managed to come back to the same output level it reached just prior to the recession! That's right, real GDP has essentially returned to the peak last seen in the fourth quarter of 2007, just before the

economy turned sour. (Real GDP topped out at \$13.36 trillion prior to the recession, then hit bottom at \$12.86 trillion in second quarter of 2009, and has since returned to \$13.12 in the second quarter of 2010.)

What does this have to do with September's employment report? It's impressive that the economy has recovered virtually all of its lost output, yet only rehired less than 10% of the 8.4 million jobs lost during the downturn. How could output increase so much with so few new workers added to payrolls? The answer is existing employees put in much longer hours at work. In addition, employers were able to achieve higher levels of productivity by using more efficient technologies.

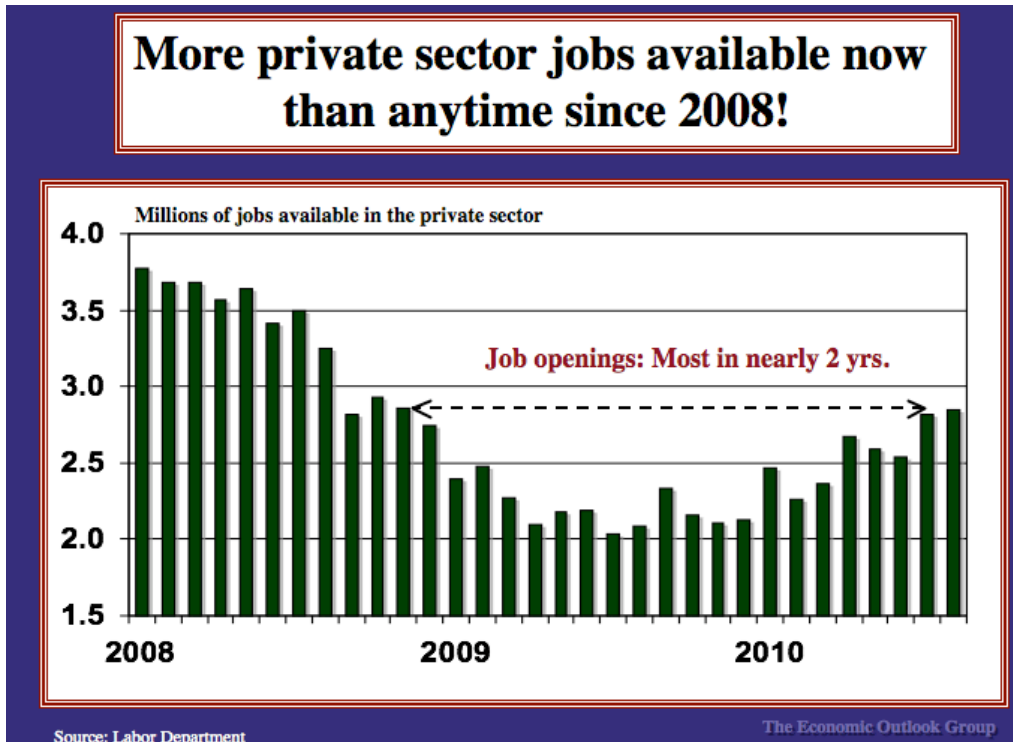
That strategy worked for the last 12 months or so. But now companies are bumping up against the limits of production with the current workforce. Employees are becoming fatigued by the longer hours and this can affect quality control. Productivity growth has also come down. It appears corporate managers have just about squeezed as much output as they can from their employees and their equipment.

Pressure is thus starting to build on employers to add additional workers. Prior to this year, the last time we saw manufacturing overtime at 3 hours was in June 2008 when the unemployment rate then stood at 5.5%! And the last time we saw average private weekly hours worked at 34.2 (again, prior to this year) was at the start of 2009, when the jobless rate was 7.7%.



So are companies now sufficiently stretched that they are ready to increase private payrolls? It appears that way. Yesterday, the BLS released the JOLTS (Job Openings and Labor Turnover Survey) report and it confirmed our analysis. The total number of job openings in the private sector has now climbed to 2.85 million, the highest in nearly

two years.



In addition, there are other recent economic indicators that seem to confirm the dynamics are improving for labor.

- The ISM non-manufacturing survey, which looks at employment in services, a sector that makes up 90% of our economy, noted that job growth accelerated markedly last month.
- Yesterday, the BLS said that new claims for unemployment benefits fell to the lowest level in three months.
- Also out yesterday was the U.S. Monster Employment Index, which tallies up jobs advertised on the Internet. Not only did September represent the eighth consecutive month of positive year-over-year increase, it surged by 16%, a pick up from the 12% in the previous month.

But this leads us right into the next question. What justifies the faster pace in hiring? Our view is that the probability has increased economic growth will turn out to be much better than expected in the final quarter of his year.

First, consumer spending is getting stronger. Retail sales picked up speed the last two months. On a broader scale, real personal spending, which includes goods and

services, has climbed for four consecutive months. The latest second quarter GDP revisions also showed that consumer outlays rose the most in more than three years.

Today, we got one of our favorite leading indicators of consumer discretionary spending: Gambling. The Nevada Gaming Commission reported that gaming revenues surged by 21% in August, compared with a year ago. That's the second biggest jump since December of 2006.

We also had some fairly decent numbers even on the housing front this week. Pending home sales, according to the National Association of Realtors, increased by a more than expected 4.5% in August, and it followed a 4.3% gain the previous month. The Mortgage Bankers Association also detected an increase in activity as applications to purchase a home in the week ending October 1st jumped by the most since April.

Nor are there any signs businesses are slackening off. Orders for capital goods (factory orders minus non-defense and excluding planes) jumped 5.1% in August, the biggest gain since March. Companies also continue to invest heavily on re-stocking inventories. The government said today that wholesale inventories rose more than analysts predicted, rising 0.8% for the month. July's wholesale inventories was also revised up, to show a 1.5% gain.

All these signs are symptomatic of an economy that is picking up momentum and this should have a positive impact on employment in the months ahead. Our forecast thus calls for private payrolls to increase a monthly average of 130,000 in the final period, making it the best quarter of the year and a great lead into 2011.

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