

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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What's With That December Employment Report?

Surprised by the size of job loss last month? Of course. But anyone who makes a change in investment strategy or revises their economic forecast on the basis of December's employment data commits an act of folly.

Year-end job figures are notoriously unreliable and therefore tricky to analyze. When you then add the fact these preliminary numbers are subject to significant revisions and happen to follow the greatest economic dislocation since the Great Depression, any effort to parse through the December data for unique insights will only bring on a migraine. So our first recommendation is to do nothing based on the December loss of 85,000 jobs.

But let's indulge anyway and dig up some statistical dust. One immediate stunner was how large the labor force shrunk in December. The BLS reported that 661,000 Americans left the work force, the biggest monthly exit in 14 years!!! (By the way, there are no monthly revisions to the household survey. That's the print until the benchmark adjustments take place.)

So we are left to ponder why the work force imploded in the final weeks of the year? One reason may be the growing conviction that with the economy improving, job opportunities will open up early in 2010, so why bother hitting the pavement during the wintery, holiday period. This seems to make sense since the number of discouraged workers grew in December.

But wait; there are more skeptical data points. The household survey reported that 589,000 Americans admitted they lost jobs in December. That jump is completely at odds with three different employment-related reports. Initial claims for unemployment benefits have been falling consistently since last March. In addition, the ADP Employment Survey just noted that December saw the fewest job losses since March of 2008! Finally, earlier this week, the placement firm of Challenger, Gray & Christmas said that planned firings in December dropped to the lowest since the recession began. That's an impressive hat trick of positive employment news for December, which is why the household survey is of dubious validity.

Yes, the unemployment rate managed to hold at 10%, but its credibility has to be put into question since it is computed off the suspicious decline in the labor force. Our expectation is for the jobless rate to cross above 10% as more Americans rejoin the labor force this year.

Establishment Survey

Nor should we place much significance on the larger than expected 85,000 fall in December payrolls. The preliminary numbers have become subject to large revisions lately, and – frankly -- this latest drop appears suspicious too. Just look at the 81,000 loss of jobs in good-producing sector alone. It's made up of employment in manufacturing and construction. Yet these are precisely the areas where we've been lately getting good news. The ISM manufacturing employment index showed factories have increased hiring every month since October! Check out this next example. The BLS reported 3,800 fewer jobs in residential construction and 14,800 positions gone among related contractors. Quite bizarre stats when home builders are now breaking ground at the fastest pace in a year!

These inconsistencies stand out even more when you see that average weekly hours worked, as well as overtime, did not change at all in December. They were at the same level as November's (39.6 weekly hours and 3.4 hrs overtime) which was the most in more than a year!

Mixed into this mediocre December report were admittedly a couple of intriguing data points. The number of Americans forced to take part time work for economic reasons fell in December for the second month in a row. Temporary employment, easily one of the best leading indicators of future permanent employment, rose another 46,500 to 1.9 million workers, the highest since last January.

Perhaps the most meaningful piece of news to come out of today's release were the revisions in the two previous months. November payrolls were adjusted to show an INCREASE of 4,000 jobs (scratch the initial 11,000 drop), the first net rise since the recession began. Great news, to be sure, but it has to be tempered by the fact that all of the hiring that month occurred in the government sector. Companies did not create or eliminate any net new positions in November.

The other major revision was a slightly greater loss in jobs in October than first estimated. That month had 127,000 decline, rather than 111,000.

Bottom line:

So --- what should we take away from all this? Here are a couple of quick conclusions.

(1) We're largely ignoring the December job numbers, and we suggest you do the same. It's a single month that's very likely to be revised. In any event, preliminary year-end employment figures have virtually no forecasting value.

(2) The November payroll revisions, which are based on more complete information, tend to corroborate a host of other employment indicators, which suggest more clearly that companies are laying off workers in far fewer numbers and are preparing to hire again.

(3) What impact will the December job losses have on consumer psychology and actual spending?

Not much. It's the totality of the employment outlook and the rise in household income that will keep consumers in a shopping mood. There is no question the employment outlook is improving. So is household income, which is linked to employment. Personal income has risen 5 months in a row to the highest level in more than a year. Wages and salaries have climbed for eight consecutive months. In just the private sector, wages and salaries have increased to the most since January of last year. Monthly take home pay --- what's left over after taxes and government payroll deductions has jumped to a level not seen since May of 2008.

It's this composite picture, one of improving employment trends along with rising incomes, that will help sustain the economic recovery and prevent a double dip recession.

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