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ECONOMIC TALKING POINTS

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March 4, 2011

February Jobs Numbers Show Companies Are In A Holding Pattern

If you take a step back for a moment, you see how unremarkable the February job numbers really are. Yes, we saw a reasonable increase in hiring. And yes, the jobless rate inched down to a fraction below 9%. But it is important to view last month's improvement as a partial bounce back from the severely depressed employment numbers in January when 70% of the nation was covered with snow. If you combine the two months, the picture that emerges is that companies are essentially in a holding pattern when it comes to hiring. Nothing more, nothing less.

Take a look for yourself. Overall, payrolls increased 192,000 last month, which turned out to be the strongest since last May. However, it followed a stormy January that saw employers fill a meager 63,000 new jobs. Average out the two and you're left with soft 128,000 a month for the new year, a figure and that happens to be **below** the monthly pace in final three months of last year (139,000).

Let's dig in further. The February headline number includes 30,000 layoffs at financially strapped state and local municipalities (and the U.S. postal service). So did at least the private sector ramp up hiring in February? Yes, private payrolls jumped 222,000, which looks encouraging

when you can consider it followed a fairly weak 68,000 in January. But, once again, average the two and you get 145,000 a month --- and that is virtually identical to what occurred in the fourth quarter of 2010 (when it averaged 146,000).

Not only are companies in a holding pattern when it comes to hiring, more of them are putting a freeze on layoffs. The number of Americans who lost their jobs within the last five weeks dropped by 288,000 in February, 2.39 million people, the lowest number since March of 2007. That data point corroborates yesterday's sharp decline in new claims for unemployment benefits, which plummeted to 368,000, the lowest weekly figure since May 2008.

Here's more evidence pointing to a holding pattern:

- For the fourth month in a row, the average workweek in the private sector held at 34.2 hours.
- Average hourly earnings last month was \$22.87, same as in January.
- The job market is still so lethargic that the average number of weeks people are out of work jumped to 37.1 in February, a record high.

Unemployment rate slips

Yes, the jobless rate did decline to 8.9%, the lowest since April 2009, but this measure has more political than economic significance. We have seen large changes in the size of the labor force the last few years and that has undermined the value of the unemployment rate as an analytical tool. For instance, the size of the workforce shrank by 312,000 over the past 12 months. (The reasons for this may vary. Some grew frustrated and quit looking for work. Others found success in the underground economy.)

While the workforce was shrinking, total employment in the household survey rose by 875,000 since February 2010. Thus, mathematically it should come as no surprise that a smaller percentage of the (shrinking) civilian labor force is out of work.

To appreciate the growing irrelevance of the unemployment rate, look no further than the labor force participation rate, which tells you how large the labor force is in proportion to the population. It stood at 64.2% the last two months, the lowest in nearly 27 years! So while the jobless rate fell below 9%, it doesn't mean firms are eagerly hiring again.

If anything, we view all these numbers as evidence that firms are still wary about hiring. Who can blame them? The economic outlook has gotten a lot cloudier in recent weeks. There is now a Herculean tug-of-war underway between the strong economic momentum we entered the year -- - and the unnerving geopolitical eruptions that has pushed oil and gasoline prices markedly higher. What's more, no one --- not corporate leaders, not the State Department, not the intelligence community --- has a clue how all this will play out for the global economy and regional stability. What is certain is that the political map across two continents that contain major oil exporters is undergoing an historic transformation. That will likely keep energy costs elevated for the rest of the year.

How might that affect hiring trends in the coming months?

If the oil remains above \$100 a barrel and gasoline stays in excess of \$3.50 a gallon for the rest of the year, it will have a detrimental impact on the economy. I don't see it yet snuffing out the recovery, but it will significantly squeeze household finances and erode corporate profit margins.

Consumers, for example, will face financial stress. Today's jobs report notes that average hourly earnings rose 1.7% in the past year. Well, that rise in income has been eaten up by consumer price inflation, which jumped 1.6% during the most recent 12-month period.

Don't expect much relief anytime soon. Today, the Triple-A reported the average retail price for gasoline surged to \$3.47 a gallon, up 46 cents in just a single month!!! Since workers have little leverage to ask for more pay in this labor market, rising food and energy costs means households will have no choice but to cut back on discretionary spending.

Companies face a similar earnings threat. The rise in productivity and falling labor costs has so far allowed them to absorb most of the increases in commodity prices. But make no mistake, companies are feeling the effects of rising prices. Manufacturers have seen their costs climb for 20 straight months, according to the latest ISM survey. Same for the service sector, which watched their costs increase for 19 consecutive months. Both sectors said inflation accelerated even further in February. Given that pricing power is still limited, how great are the odds that employers will speed up hiring? Not much.

Bottom line:

Given the sustained rise in operating costs and the profound lack of

clarity how the turmoil in the Middle East will affect future revenues and profits, we would not be surprised if private employers remain cautious about hiring the next several months.

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