

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Employment May Be At An Inflection Point

September's job report clearly has both political and economic significance. The drop in the unemployment rate to 7.8% will certainly bring some cheer to the Obama campaign. Since 1956, no incumbent lost when the jobless rate fell in the two years leading up to an election. That may play out again in November. In a climactic end to a long and bitter Presidential campaign, we have seen the unemployment rate drop from 10% in October 2009, to below 8% last month. September's 7.8% rate now matches the level when Obama first took office.

But let's not focus just on the jobless rate. There were other data points that helped underscore the recent improvement in the labor market.

- Employment in the private sector is now *higher* than it was at the start of Obama's Presidency (111.50 million last month vs. 110.99 million in January 2009).
- Average weekly hours worked in the private sector in September rose to 34.5, from 34.4 the two previous months.
- The employment-population rate, or the percentage of the working age civilian American population that is employed, rebounded to 58.7%, the highest in more than two years!
- Equally significant is that the BLS keeps revising up payroll gains for the previous months. The latest numbers show July's total payrolls jumped by 181,000 (not 141,000 as originally reported) and in August it climbed by 142,000,

(considerably higher than the initial 96,000).

Moreover, some of the economic numbers that often lead the rest of the economy showed promise as well. For example, trucking and warehouse employment both rose, adding a combined 5,000 new workers. Hiring at child care centers picked up. Another revealing statistic is the number of people who are newly unemployed --- (“duration of unemployment for less than five weeks”) plummeted by 302,000, to bring this population down to 2.54 million, the lowest in seven months.

Of course, some will argue the Obama Administration quietly pressured federal agencies to ramp up hiring in September in a last ditch effort to make the employment numbers look better. But their case is a weak one. Most of September’s job gains in government came at the state level (up 13,000), not federal (an increase of 4,000). Secondly, the household survey, which is based on responses from ordinary Americans, showed that employment surged by 873,000 in September, the largest one gain since 1983!

What is particularly interesting about September’s decent jobs report is the dichotomy it presents. An economy that has braked hard from a 4% pace a year ago to less than 2% should be showing far weaker employment numbers. A business sector that has to confront a fiscal cliff plunge and recession next year would normally shy away from adding to their payrolls. Yet that does not appear to be happening. So what accounts for the better than expected numbers? Why did private companies choose to accelerate hiring in the third quarter when there was so much talk of doom and gloom about the future?

There are likely two answers here.

First, 3rd quarter GDP growth may turn out to be stronger than most economists currently forecast. We're in the midst of reassessing our GDP numbers for that period. Second, and more interesting, is the growing conviction among business leaders we spoke to that once the bitter election campaign comes to an end, we shall finally see more adults enter the room in Washington who will work to avert a fiscal cliff disaster. The basic rationale is that the majority of politicians in Washington *ultimately* do not want to have blood on their hands for causing a recession in 2013, which a fiscal cliff plunge will certainly do. Employers are thus cautiously turning more optimistic about the economy in 2013 and becoming less apprehensive about hiring.

The combination of better economic growth and an emerging belief that the fiscal cliff will be averted sets the stage for a sustained period of faster job growth in the coming months.

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