

# THE ECONOMIC OUTLOOK GROUP



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## ECONOMIC TALKING POINTS

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### Hiring Has Shifted Into Faster Gear

(This is an abbreviated report due the Hurricane Sandy, which has damaged our offices and communications systems.)

There was nothing ambiguous about the October jobs report. It convincingly showed not just an acceleration in hiring but also an overall improvement in labor market conditions.

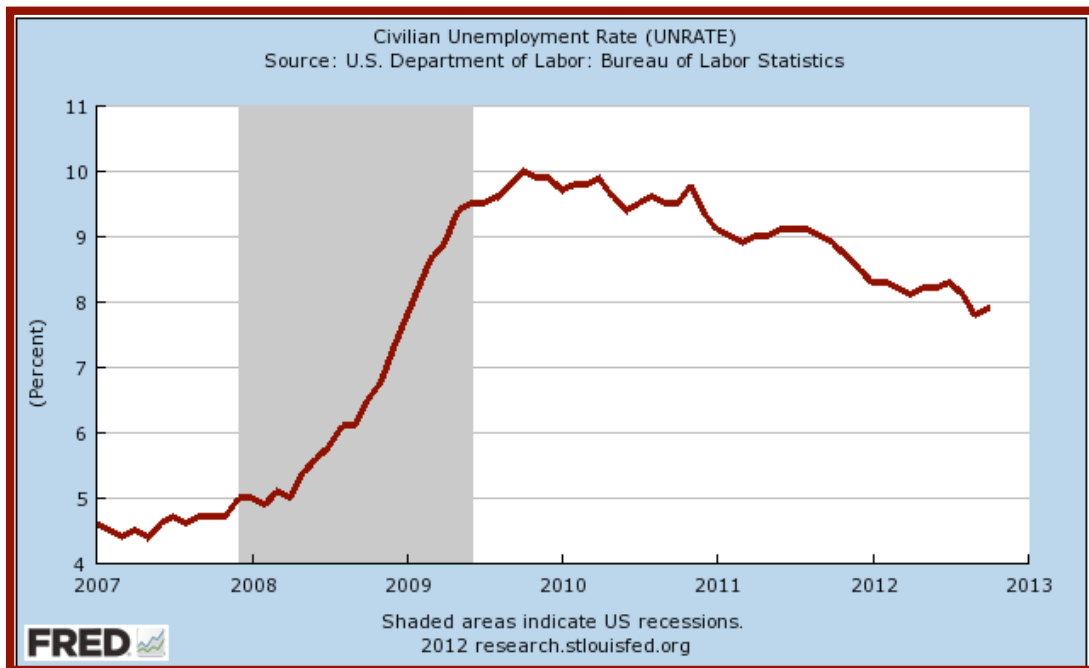
The question now is whether Hurricane Sandy will significantly derail this positive trend in jobs. Our assessment is that it will not, though obviously we could see some temporary disruption in new employment as firms in the Northeast seek to recover from this historic weather shock.

Let's begin with one particularly important note. The BLS has consistently revised the payroll numbers higher in recent months (up another 50,000 in September and 34,000 in August). We expect October's 171,000 preliminary figure will prove to be higher as well as more data arrives to the BLS. The agency received only 72% of its questionnaires back in time for the October jobs report, markedly below the 77% percent response in the preliminary release for September. We expect total collections for the month of October will surpass 200,000.

Let's quickly break down the latest job numbers to its most meaningful data points.

1. The unemployment rate did inch up to 7.9% last month, from 7.8% in September, but this increase actually reflects growing optimism among the unemployed that the economic climate has improved enough to create more job opportunities. As a result, some 578,000 more people have rejoined the labor force, the second largest increase in

more than a decade! Some 410,000 actually found work in October, according to the household survey. One factoid that should be highlighted here is that the combined September and October surge in employment was the strongest back-to-back performance since January 2000!



2. Those who accepted part time work for economic reasons (i.e., they could not find suitable full time employment) fell by 269,000 in October.
3. The labor force participation rate jumped to 63.8%, the best in four months.
4. The most comprehensive measure of unemployment, the U-6 series, which includes discouraged workers and part time work for economic reasons, dropped to 14.6%, the lowest since April.
5. The establishment (payroll) survey reaffirmed the brighter job picture in the household survey. As we said earlier, total payrolls rose 171,000 in October. But more important is the upward trend in hiring in the private sector, which climbed another 184,000 last month, the most since February.
6. Most of the growth in payrolls was concentrated in the service sector, while the goods producing industry showed weakness. But be prepared to see the latter sector turn up markedly in coming months as post-Sandy reconstruction of private homes and public infrastructure projects boosts demand for construction workers.

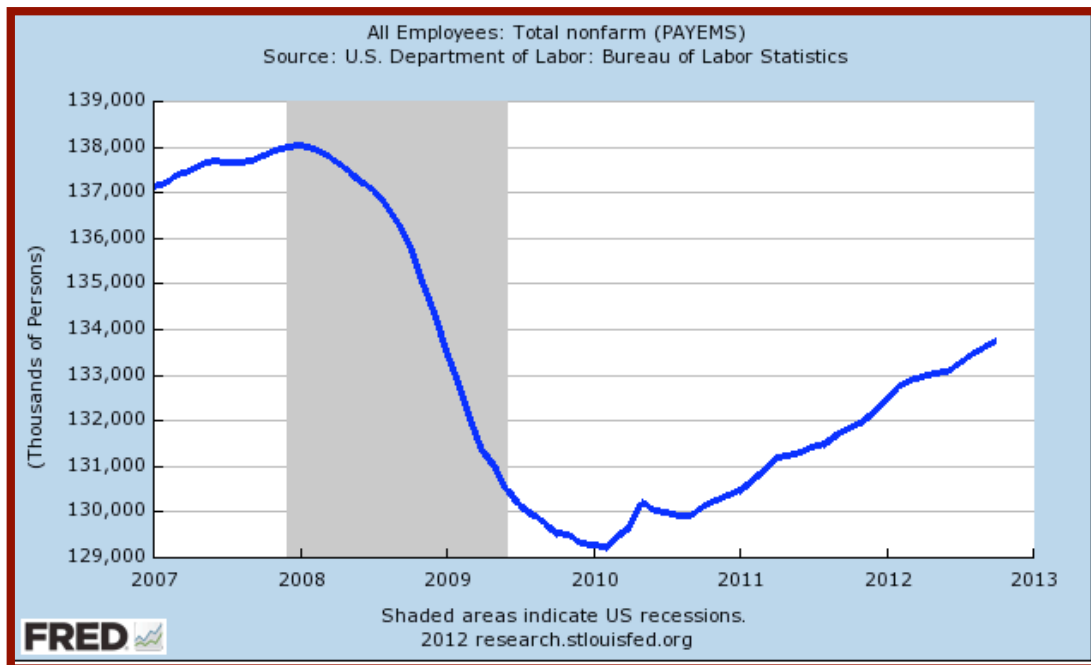
Are there any concerns we have in this report?

Yes. There were a few negative data points worth noting: Average hourly and average weekly earnings slipped in nominal dollars. And when we get the inflation data for October, we suspect it will show another decline in real pay. This could put

additional pressure on consumers to tap their meager savings – or force more borrowing– to maintain spending. Given the emergency outlays in preparation for Hurricane Sandy and its aftermath, this will likely cut back expenditures during the holiday shopping season. We are currently downgrading the outlook for consumer spending in late November and thru December. Another disturbing trend was the rebound in unemployment for blacks and African-Americans to 14.3% in October, a four-month high. Our forecast calls shows the jobless rate to declining in this demographic group as economic activity picks up later this quarter and through 2013.

### Final conclusions:

- The October jobs report represents a net positive for President Obama. Not only have payrolls increased more than virtually all forecasters expected, the total number of people now employed is greater than when President Obama first took office in January 2009.



- We expect employers to increase hiring in the coming months as the economic outlook gains clarity AND with the fiscal cliff threat subsiding (which is part of our baseline projection).
- Hurricane Sandy will result in more hiring in the construction sector as both homebuilders and the government seek to rebuild.
- Finally, we expect China will also avoid a hard landing and that will also provide additional support to US exporters.