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ECONOMIC TALKING POINTS

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Beware: August's Jobs Report Could Be A Sleeper

Let's set the stage for tomorrow's all important employment report. So far this week, we came across six different economic releases that refer to labor market conditions in August. They were the ISM Manufacturing employment index, ADP's private sector employment, ISM Services employment measure, Challenger, Gray & Christmas' corporate layoff announcements, the Monster Employment Index and finally new claims for unemployment benefits for the final week of August. Is there some central theme running through all these that may give us a heads up on Friday's jobs report? Let's see from the data below.

1. Last **month's ISM Manufacturing employment index** inched up to 46.4, from 45.6 in July. This indicates that layoffs in the industrial sector continued in August but at a slightly slower pace. However, what we really want is to have the index move above 49.7, since this typically is consistent with an increase in manufacturing employment in the Bureau of Labor Statistics employment report. Moreover, only 4 of the 18 industries surveyed by the ISM reported an increase in hiring, hardly impressive. Put it all together and the conclusion we draw is that layoffs continued in manufacturing, but at a slower pace. There's not much more to be said from this series.

2. The **ADP National Employment** release predicted that companies dropped 298,000

workers, which turned out to be the fewest cuts in private payrolls in nearly a year (since August 2008). But even this figure is something of a disappointment. Forecasters expected the number to be still lower (250,000).

The ADP report showed a decrease of 152,000 workers in goods-producing industries, which includes manufacturing and construction. If we just look at the manufacturing component, which is highly sensitive to turning points in the economic cycle, the report notes that manufacturing dropped 74,000 jobs last month, the smallest number of layoffs since July of 2008. Service providers cut 146,000 workers, the lowest of the year. These numbers are all heading in the right direction, of course, but it remains a slow crawl toward improvement.

3. This morning we got August's **ISM's Service industry** data and the employment component edged up to 43.5, from 41.5 the previous month. Yes, it's an improvement but the change barely evokes a shrug. August was still the 19th of the last 20 months that saw service employment shrink. In addition, just two sectors --- (1) Real Estate, Rental & Leasing; and (2) Health Care & Social Assistance --- reported a growth in jobs, while twelve industries recorded a decline and four saw absolutely no change.

4. Chicago-based placement firm **Challenger, Gray & Christmas** said employers announced 14 % fewer job cuts in August than the year-earlier month, and 21% fewer than July. It was the third year-over-year decline in a row, the longest such stretch since late 2007. The report is an encouraging one, we admit. Now let's see if this trend continues. Our assessment has been that companies have slashed their workforce so much and so quickly this recession, that at some point soon they'll come to realize they've not only cut to the bone but have inadvertently amputated some of their operations. Maybe business leaders are beginning to acknowledge they've gone too far.

5. The most upbeat report on August jobs came from the **Monster Employment Index,** which gauges the number of jobs posted online. The index shot up 7 points, to 121, the biggest one month climb since August 2005! According to this series, jobs were actually added to the retail and financial sectors in August, two areas that have been severely depressed during the economic downturn. Don't rush out the confetti, though. The Monster index, which jumped to 121 in August, is now the highest since...um February and still stands 24% below the year ago level.

6. This morning we received another monotonous set of numbers from **weekly applications for unemployment insurance.** First time claims slipped an unimpressive 4,000 to 570,000. Feel that yawn coming? For the past several weeks, these numbers have been trendless to the point of sleep inducing. They have been fluctuating between 524,000 and 589,000 since the start of the summer. The total number of Americans collecting unemployment remains the same as it was mid-July. Clearly this whole series

has been trendless for weeks and thus frustrating. About the best piece of information to come out of this report is that the hardest hit states of Michigan and Florida recorded the fewest number of layoffs in the country, the former due to the successful "cash for clunkers" auto program and the latter to a pick up in global trade and new residential construction.

Bottom line:

So what can we conclude in advance of Friday's big employment release?

First, job losses are diminishing as the labor market creeps ever so slowly toward stabilization.

Second, employment conditions are improving at such an agonizingly slow pace that most Americans will not be able to detect any genuine improvement. That's why consumer spending will remain weak for the balance of the year. Indeed, several retailers reported their August sales numbers and they produced little surprise. With labor market conditions still extremely soft, Americans are focusing on necessities and shopping at discounters. Macy's, Saks, Nordstrom saw sales slip in August, while Targets and Kohl's registered increases.

Third, as for tomorrow's job numbers, we expect to see only microscopic improvements, and that may typify what the 2009 – 2010 economic recovery will all be about.

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