Tea Leaf

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Your guide to understanding today's economy and financial markets

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One Step Forward…

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The October U.S. employment report was a mix of good news and bad news… mostly bad. However, a number of data points within the report provide more support for the notion that U.S. economic growth has returned, with prospects for reasonable (if not exciting) economic performance during 2010 and 2011.

First of all, the nation's unemployment (jobless) rate usually continues to rise and job losses typically continue to be reported during the first stages of an economic rebound. This was especially true following the conclusion of the two prior recessions—each lasting eight months—during 1990-91 and during much of 2001. No differences this time around the economic cycle.

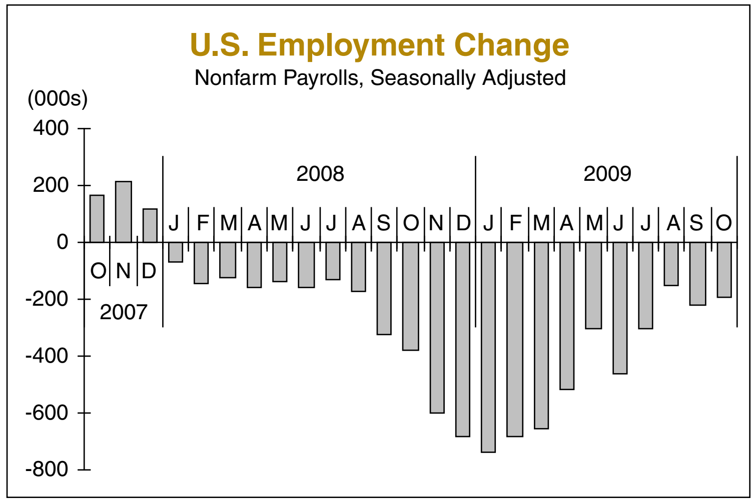
Employers embraced a "shoot first, ask questions later" approach to job eliminations late last year and during 2009's first few months as the bottom fell out of the economy. Such employers typically take a wait and see attitude regarding new hiring when crystal ball gazers (lowly economists) argue that the economy has changed directions. Layoffs continue, although they do slow down.

10.2%…Already

The most newsworthy (and painful) item within the latest employment report was the sharp rise in the jobless rate to 10.2% in October—the highest since 1983—versus September's 9.8% rate. While the consensus view of forecasting economists had expected a 10.2% rate to be reported sometime during the next few months, the rapid jump in just one month was a surprise.

The jump occurred even as reported job losses during October (down 190,000 jobs) were very close to expectations (down 175,000 jobs). Better news saw previously reported job losses of the two prior months reduced by 91,000 positions.

While of no consolation to the tens of thousands of people who lost their jobs in October, the labor market IS getting better. Job losses during 2009's first three months averaged 691,000 monthly. Average losses over the past three months averaged 188,000 monthly…a 73% decline!



The U.S. economy has now lost jobs for 22 consecutive months, the most painful period since the Great Depression. However, the plunge in employment… especially during the past 12 months… suggests that job gains could occur sooner rather than later in this economic recovery. As noted before, inventories of goods on the shelves and in warehouses are now so slim as to require a significant rise in output (and hopefully hiring) in coming quarters.

Different Stories

October was another of those months where the two primary pieces of information (the jobless rate and the employment change) told somewhat different stories. As before, the problem rests with the data coming from two different surveys.

The employment data comes from a monthly survey of roughly 400,000 medium- and large-size businesses. It is the more complete of the two surveys.

The unemployment rate comes from a monthly survey of roughly 60,000 households. The October spike in the unemployment rate was tied to a substantial drop in the number of people who describe themselves as self-employed, as well

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as a decline in the number of teenagers who have jobs *(CNNMoney.com)*. Estimates of changes in teen employment and the self-employed are simply not measured very well in the household survey.

Teen Experience

The spike in the jobless rate for teenagers is especially worrisome. The current teenage jobless rate…(Note: this only includes those teens actively seeking jobs) is 27.6%, the highest on record.

Extended high levels of teen unemployment mean that thousands of potential younger workers don't get a chance to develop workplace skills. They don't get a chance to show what they can do to merit higher incomes. They don't get, and may never get, that initial job that can soon lead to higher earnings potential and lifelong success in the workplace *(The New York Times)*.

Better News

In addition to the revised data indicating 91,000 fewer jobs lost in August and September, the first meaningful rise in two years in "temp" employment (up 34,000 jobs) was important. Employers usually bring on temporary workers before adding to permanent payrolls. The data is one more indicator of a likely rise in overall payrolls sooner rather than later.

Also, average hourly wages grew more rapidly than during the month before. The 0.3% rise (up five cents) to $18.72 hourly was better than the one cent rise during September. Still, the 2.4% rise of the past 12 months was the smallest year-over-year gain in five years.

Simply Ugly

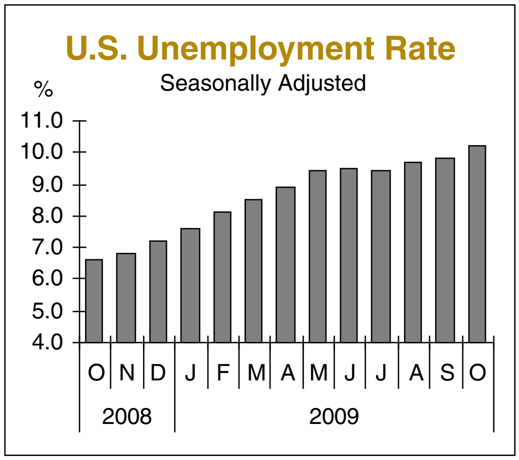
There's no getting around the fact that much of the October data was depressing…

- A record 35.6% (5.6 million) of the 15.7 million people officially counted as unemployed have been out of work for six months or more. Tens of thousands of former jobs in construction and manufacturing will never be seen again

- The "underemployment" rate, a total of those unemployed, those working part-time who would prefer to work full-time, and those discouraged workers who have left the labor force, reached 17.5%, a record since such data was initially reported 15 years ago

- Total jobs lost since the recession officially began in December 2007 are now at 7.3 million

- The average work week remained at 33.0 hours, a record low. Employers are likely to increase hours of existing workers before they bring on new employees



More Productive Workers

In addition, the U.S. Labor Department reported last week that the average non-farm worker's output (productivity) rose at a 9.5% annual rate during 2009's third quarter. When combined with the 6.9% annualized productivity increase during the second quarter, it represented the strongest six-month productivity growth pace since 1961 *(The Wall Street Journal)*.

Strong productivity gains are good news in terms of keeping the U.S. work-force competitive with that of the world. Strong productivity gains also help keep inflation in check. But strong productivity gains mean that employers are getting better performance…greater output…from existing workers, negating for a time the need to add new workers.

Cause…and Effect

Given Administration and Congressional desire for a greater and greater role in our lives…government-mandated health care changes that will only add to business and health care costs…proposed "cap and trade" legislation that will only add to business costs…and an anti-business fervor from all too many in Washington, one can hardly blame businesses for a lack of new hiring.

Jeff

"TEA"ser

He has all the virtues I dislike and none of the vices I admire.

—Winston Churchill

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