

Sustained Job Creation Is Just Around the Corner

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Highlights

- The US economy lost 85,000 jobs in December, which was worse than anticipated but the unemployment rate held steady at 10%.
- The good news is that upward revisions to the November employment data resulted in a small positive print last month.
- The bad news is that despite stable readings around 10% over the past couple months, the unemployment rate may rise a bit further in the first quarter of 2010.

The US economy lost 85,000 jobs in December and the unemployment rate held steady at 10% during the month. Although this figure was a disappointment and a surprise to the markets, it was in line with our own expectations. Therefore, it does little to change our view that the US economic recovery is on track and that sustained job creation will begin sometime during the first quarter of 2010.

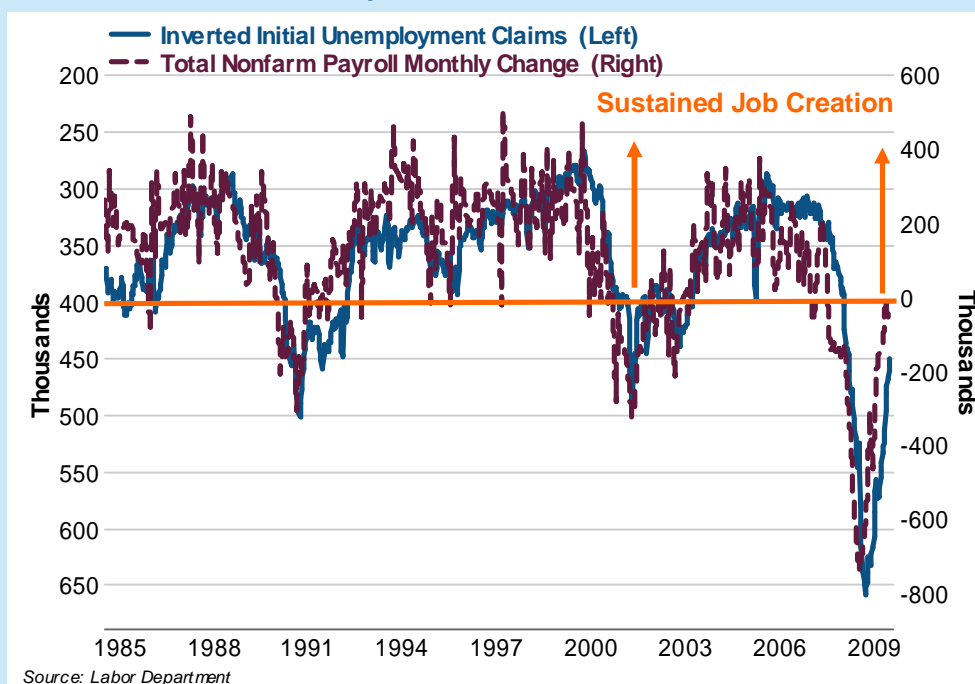
The Good News

- The good news is that upward revisions to the November employment data resulted in a small positive print last month. However, given the volatility of the payrolls figures the +4,000 is not meaningfully different than zero. Still, the six-month trend in payrolls continues to head in the right direction and the November data marked the first positive payroll print since December 2007.
- Temporary help services, a leading indicator of overall job creation, was up by 47,000 in December and has increased for five consecutive months. Companies will often test the waters by hiring temporary workers before bringing on full time hires. This series has historically led overall employment growth by about six months which would suggest a positive payroll print in either February or March.
- The Institute for Supply Management reported that the employment component of its manufacturing index rose above 50 in December indicating that manufacturing payrolls will probably expand in January. Hiring in the manufacturing sector could gather momentum as an inventory rebuilding cycle begins in the first quarter.

The Bad News

- Despite stable readings around 10% over the past couple months, the unemployment rate may rise a bit further in the first quarter of 2010. The US economy probably needs to generate an average of 150,000 jobs per month in

Jobless Claims Need to Drop Below 400,000 For Sustained Job Creation



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- We will be keeping a close eye on the weekly claims data for a break below the critical 400,000-level, which would be consistent with sustainable job creation.
- It will probably take at least another quarter of trend GDP growth of around 2.5% before the economy is creating the 130,000 or so jobs necessary to keep the unemployment rate from rising.

order to absorb new entrants to the labor force and keep the unemployment rate from rising. We do not think that is likely before the second quarter of this year.

- The one-month employment diffusion index, which measures the percentage of industries that are hiring, stood at 40% in December. Sustained job creation is unlikely until at least half of the 271 industries surveyed are hiring. While initial jobless claims have come down sharply in recent months, they remain above the 400,000 level that is consistent with an expansion of payrolls. We believe this will occur during the first quarter and sustained job creation will start in either February or March.

Be Patient, Job Growth Is Coming

Overall, the evidence from the December employment report leads us to believe that sustained job creation is probably just around the corner. In the coming weeks, we will be keeping a close eye on the weekly claims data for a break below the critical 400,000-level. If it occurs by the third week of January when the Labor Department begins calculating payroll figures for the following month, we may see a positive payroll print in February. If it occurs afterward, we may have to wait until early March for the next positive payroll figure.

It is also important to keep in mind that even if job growth were to turn positive next month, it will probably take at least another quarter of trend GDP growth of around 2.5% before the economy is creating the 130,000 or so jobs necessary each month to absorb new entrants to the labor force and keep the unemployment rate from rising.