

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

AUGUST 5, 2011

JOBS REPORT NOT GREAT BUT NOT NECESSARILY THE "R" WORD

The Labor Department reported this morning that the US economy added 117,000 jobs in July, beating market expectations for +86,000 new jobs on the month. Further, payrolls were revised up to +53,000 in May and +46,000 in June, erasing the dismal 18,000 estimate from June's report. Given the renewed talk of a "double dip" recession, today's report was met with a collective sigh of relief in the financial markets.

Recession threat? While the details of the report were not great, use of the "R" word – as in recession – is probably not yet warranted. While employment data "lags" economic growth, the jobs report is far more timely than the GDP figures, giving us a better "real-time" assessment of the US economy. The verdict: the job market is not collapsing...nor is it galloping ahead. "Treading water" may be a more appropriate description. Average monthly payroll growth tallied just 72,000 per month over the last three months, consistent with our assessment that monthly job growth is stuck in the 50,000-100,000 range. Private payrolls rose

by 154,000 during July while government payrolls fell another 37,000. Approximately 500,000 government jobs have been eliminated since 2009 and this acts as a strong headwind against overall payroll growth.

However, even at this rate of job growth **the unemployment rate will likely remain above 9% and could drift higher.** The unemployment rate ticked down from 9.2% in June to 9.1% in July—but not for the right reasons. Discouraged workers left the labor force during the month and these workers do not show up in the unemployment rate cited in the popular press. As noted in our Economic Review & Outlook we prefer the Employment-to-Population ratio as the broadest measure of labor market strength. While the ratio ceased its rapid decline as the recession ended, job growth is failing to keep up with growth in the working age population. This metric fell to 58.1 in July and has been stuck in the 58.1 to 58.5 range for an entire year.

The conclusion: the latest set of data confirm that while the job market is not collapsing, a robust labor market recovery has still yet to begin and the sluggish pace of payroll growth continued through July.

EMPLOYMENT TO POPULATION RATIO SHOWS NO RECOVERY YET FOR US LABOR MARKET

