

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

FEBRUARY 3, 2012

FROM THE ECONOMICS TEAM: A HEALTHY DOSE OF ECONOMIC OPTIMISM?

The popular view is that, without more fiscal and monetary juice, the US and much of the developed world faces a prolonged period of economic stagnation. **Our view is that, while there are important structural impediments to a quick job market recovery, the recovery proceeds nonetheless.**

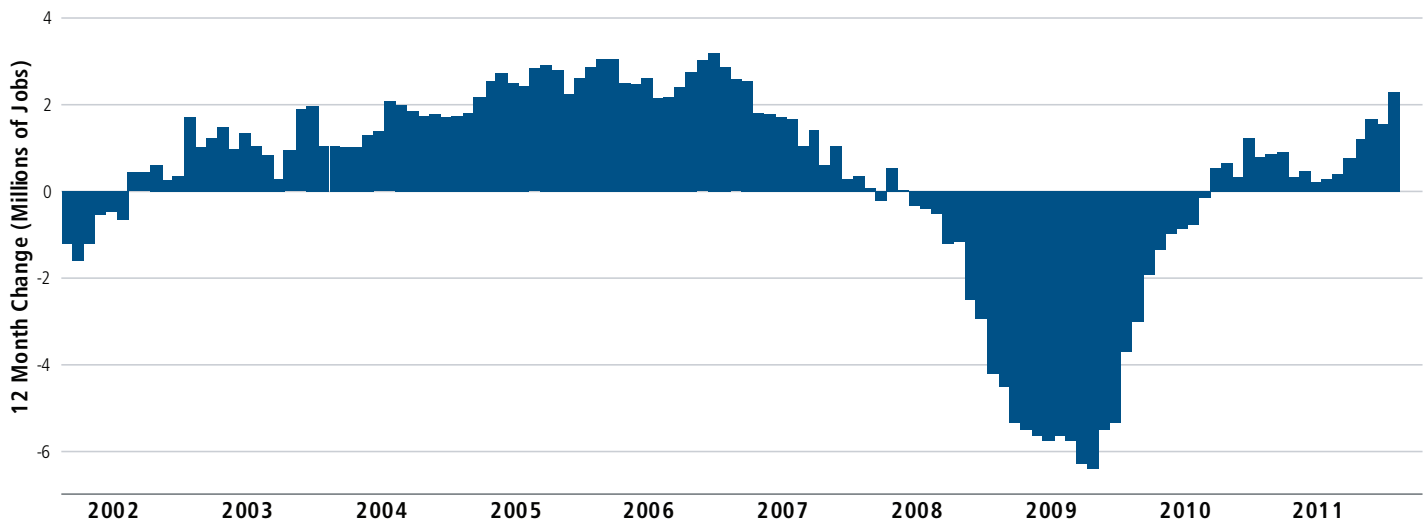
With that in mind, the *Employment Situation* report caught the market by surprise on Friday. The market consensus expected just 140,000 jobs in the payroll survey but the BLS reported a gain of 243,000. **Even better, over the last 12 months, the US economy added 2.2 million private sector jobs and over the last three months jobs gained have averaged 200k/month.** The annual benchmark revisions to employment levels were positive for the first time since 2006.

A key component of our “structural” view on the US labor market is to ask: where do jobs come from? Our analysis tells us that new firm formation is critical to this process. While difficult to track in real-time, we think the household survey is a better gauge of this than the payroll survey as it captures start-up activity and self-employment. How has

that gauge fared? **As you can see in the chart below, household employment is up 2.31 million over the last 12 months—the best 12-month rolling increase since early 2007.**

But, a point of caution is essential: **the recovery has a long way to go.** Even a steady string of 250k jobs reports (and we doubt the road will be steady and straight) means a recovery to the pre-crisis level of employment occurs in 2014 or 2015. Also, while the unemployment rate did fall to 8.3% in January, labor force participation is at a 28-year low! Job seekers are still more likely to leave the labor force than find employment. **Further, our favorite labor market indicator, the Employment-to-Population ratio, is still stuck at 58.5, meaning that employment growth is advancing just fast enough to keep up with population growth.**

Overall though, regardless of the way you slice the data, this was a good report and a healthy reminder that, yes, the economy will recover. It is fun to see economists befuddled by that fact and for a small dose of optimism to be injected into the discussion.

US HOUSEHOLD EMPLOYMENT: BIGGEST 12-MONTH INCREASE SINCE EARLY 2007

Source: BLS

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