

Macro Research

QE or not, labour market improvements to remain lacklustre

US nonfarm payrolls preview (November)

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- The sun struggles to break through the clouds, but a few rays of sunshine are reaching the private labour market. The private sector has seen net gains in jobs in recent months and activity increases modestly; we look for 85,000 new jobs.
- The service sector is doing all the pulling while goods-producing jobs are still lost on a regularly monthly basis. We expect this trend to continue and look for an unchanged number of manufacturing jobs.
- State and local governments are in deep distress with massive budget imbalances. As a consequence, they will seek to reduce costs, which will mean fewer employees in the future. Look for a loss of 20,000 government jobs in October.
- Americans are reluctant to re-enter the job market and with weak gains in employment, we look for the unemployment rate to remain at 9.6%.
- The 2010 Census will no longer distort the employment picture to any material degree as only 6,000 temporary workers are left following last month's reduction of 76,000 payrolls.

Event	Saxo	Low	Median	High	Previous
Nonfarm Payrolls (monthly change in thousand, SEP)	65	0	60	125	-54
Private Payrolls (monthly change in thousand, SEP)	85	20	80	135	67
Manufacturing Payrolls (monthly change in thousand, SEP)	0	-15	5	18	-27
Unemployment Rate (SEP)	9.6%	9.5%	9.6%	9.7%	9.6
Average Hourly Earnings MoM (SEP)	0.2%	0.1%	0.1%	0.2%	0.3%
Average Weekly Hours (SEP)	34.2	34.2	34.2	34.3	34.2

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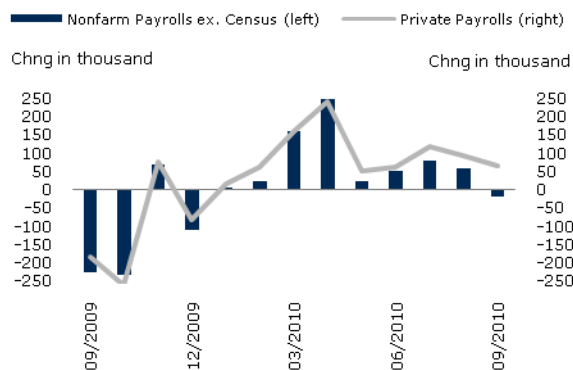
Payrolls to increase

A hectic week including both the US midterm elections and an FOMC meeting is drawing to a close, but before we can sit back and relax an additional treat is served; the US employment report. On balance, the recovery accelerated somewhat in October according to indicators such as the ISM indexes, ADP Employment, and jobless claims. Overall, we are looking for the labour market to continue to improve with payrolls up 65,000 since September and an unchanged unemployment rate of 9.6%.

Private sector gains rely on the service sector

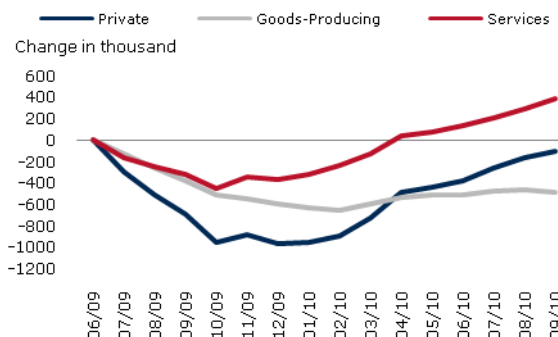
The private sector employment picture has improved since the end of the recession last year, but job creation seems stuck close to the 50,000 mark, which is not even close to being enough to cover the population growth. And what is more disturbing is the fact that employment in the goods-producing sector is still declining. The ADP Employment report, released yesterday, details how the number of jobs in this sector is down by 34,000 in October and a distressing 1.06 million since the recession ended! We need the goods-producing sector to bounce back for the economy will regain a solid footing.

Establishment Survey



The Bureau of Labor Statistic's (BLS) data provides more evidence of the continuing problems in the goods-producing sector. The change since the end of the recession is -484,000, which – while not as weak as reported by the ADP – nevertheless emphasises the exact same thing. President Obama's goal of doubling exports in five years looks more and more like a mirage in a hot desert.

Establishment Survey: Cumulative change in payrolls since the end of the recession (June 2009)



The ADP Employment report attempts to capture private sector employment and if we use it as an indicator of (what is expected to be announced by the BLS tomorrow regarding) private job creation, then we are looking for a number in the range of 35,000 to 63,000. The BLS's measure of payrolls, however, has been somewhat higher than the ADP's equivalent in recent months, and with the general improvement in the economy, we project a monthly change in private sector jobs of 85,000.

Government sector to remain a drag

We expect employment in the government sector to have taken another hit in October. Especially the state and local governments are expected to have shed employees in an attempt to narrow the vastly unbalanced budgets found practically everywhere across the US. September was a bloodbath viewed through the eyes of government employees as no less than 159,000 people were let of which 76,000 were temporary Census workers. Put differently, if we exclude the Census effect 83,000 payrolls disappeared. We expect this trend to continue in October, but at a slower pace, which will be more in line with the other declines seen in the second half of 2010. Hence, we look for this part of the labour market to have shown a reduction in payrolls of 20,000.

The development in employment in the US has been distorted by the 2010 Census this year, particularly from March and onwards, but we can now finally focus our attention to the headline number as the number of temporary Census workers is now insignificant for the greater picture.

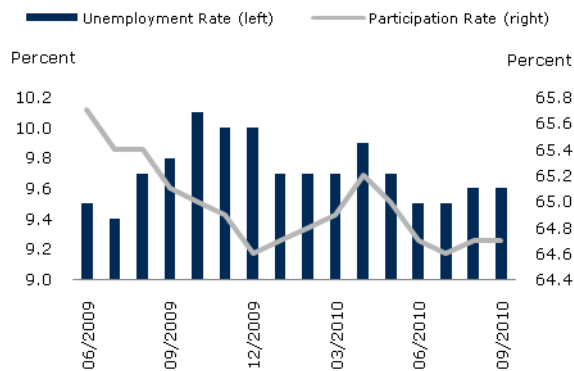
Improvements are too slow

The recovery in the labour market has been agonisingly slow this time around. Historically, employment is up 3.46% on average this far into a recovery, however in the current recovery we are actually still *below* the employment level seen when we exited the recession. To get back to this 'break even' point the economy needs to generate 0.34% - or 436,000 - new jobs. And that is just to break even, so if we set the target a little higher aiming for this expansion to be average in terms of net new jobs, we are still short an amazing 4.5 million!

Unchanged unemployment rate hides fundamental problem

We expect the unemployment rate to remain unchanged at 9.6% in October, but hidden in the details is the sad fact that the reason the rate has not crept above 10% yet is due to a lacklustre labour market participation. Americans are simply giving up the search for jobs and drop out of the labour market all together.

Household Survey



Source: Bloomberg. Our calculations.

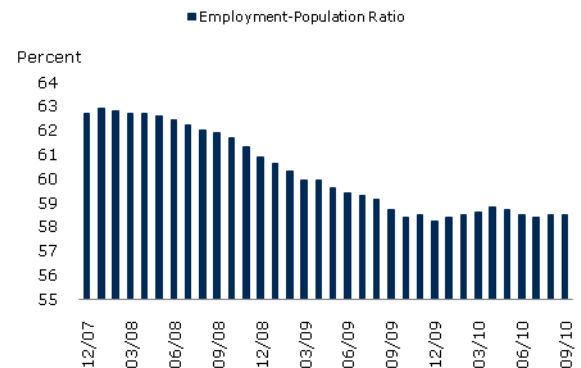
Toying with the (admittedly unrealistic) thought that the participation rate would have remained at the pre-recession level of 66% demonstrates precisely how big an impact the declining participation has had on the unemployment rate. Instead of an unemployment rate of 9.6% we would be looking at a rate far above 10%. Indeed, it would have meant that the number of unemployed would have been 17.9 million rather than the current 14.8, which would imply an unemployment rate of 11.4%.

Of course, the mentioned hypothetical scenario assumes that all additional labour market participants would be

unemployed, but it is nevertheless instructive as an example of the impact of labour market participation on the *rate of unemployment*. Generally, we thus prefer to look at the changes in employment and unemployment, rather than the rate of unemployment.

The cautious approach to hiring seen across companies means that the rate of improvement in employment is not enough to support the growth in the population. Unless employment starts to increase, the unemployment rate will slowly rise. Indeed, just to keep the unemployment rate steady, we need something along the lines of 125-150,000 newly employed every month, not an expected 65,000. This is also evident from the employment-population ratio, which has dipped precipitously in the current situation.

Household Survey



Source: Bloomberg. Our calculations.

Bringing it all together, we expect a continued recovery in the US labour market of 65,000, driven entirely by the service sector. The goods-producing sector, including manufacturing, is expected to post another - albeit small - loss in jobs, while the government sector will also shed jobs. The unemployment rate is expected to remain unchanged at 9.6% for the third consecutive month. It is a picture of modest improvement.

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