

Weekly Economic Commentary



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June Jobs Report Highlights a Crowded Economic Calendar

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Highlights

- The June jobs report highlights a crowded economic calendar this week.
- How quickly the economy can create the next two million jobs will be key to the sustainability of the expansion.

Economic Calendar

Tuesday, July 5

Factory Orders
May

Wednesday, July 6

Service Sector ISM
Jun

Challenger Layoff
Announcements
Jun

Thursday, July 7

ADP Employment Change
Jun

Initial Claims
wk 07/02

Chain Store Sales
Jun

Friday, July 8

Nonfarm Payrolls
Jun

Unemployment Rate
Jun

Wholesale Inventories
May

Consumer Credit
May

The June jobs report will cap off the holiday-shortened week's crowded economic and policy calendar. Markets are looking for a slight acceleration in private sector job creation in June, after the private sector economy added just 83,000 jobs in May. June data on service sector ISM—typically a market-mover—and later in the week, June data on chain store sales and layoff announcements will all serve as a warm up for the main event on Friday.

The U.S. economy is still in the process of transitioning from the current “soft spot” back into the modest growth mode it has been in over most of the past two years since the Great Recession ended in June of 2009. Some of the temporary factors that weighed on economic growth in the United States and globally in the recently completed second quarter—Japanese earthquake and tsunami and resulting supply chain disruptions, severe weather, late Easter—appear to be lifting as the calendar turns to July, but it may be a few more weeks before the transition is complete.

On the policy side this week, the debt ceiling debate in the United States takes center stage, as the European Central Bank, the Bank of England, and central banks in Sweden, Australia, Mexico, Malaysia and Poland meet to set policy. The fiscal situation in Greece will simmer on the back burner this week, but remains a source of lingering uncertainty for financial markets. It is a quiet week for Federal (Fed) Reserve policymakers, as they monitor the economy in the first full week after the end of the second round of quantitative easing (QE2). The next key events for the Fed are the release of the minutes of the June 21–22 Federal Open Market Committee (FOMC) meeting on July 12, which is the day before Fed Chairman Ben Bernanke delivers his semiannual Monetary Policy Report to Congress. We continue to expect the Fed to remain “on hold,” by maintaining the size of its balance sheet over the next several months as it monitors the pace of inflation and economic activity against its forecast.

The Next Two Million Jobs

The market expects that the private sector economy added 125,000 jobs in June 2011, a slight acceleration from the 83,000 private sector jobs added in May, though still below the approximate monthly 200,000 gain needed to keep the unemployment from moving higher. The market's forecast for job growth in June 2011 implies that the private sector economy will add jobs for the sixteenth month in a row in June, totaling around two million jobs (2.2 million to be exact). Note that between February 2008 and February



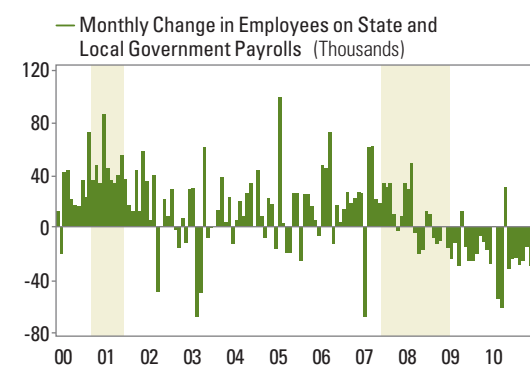
Various Outcomes for Job Creation

	Jobs Created Per Month	Date By Which Next Two Million Jobs Are Created	Months To Create "The Next Two Million Jobs"	How Many More Years To Recoup All Jobs Lost in Great Recession	Date By Which All Jobs Lost During Recession Would Be Recouped	Economic Outlook Under This Scenario	Fed Outlook Under This Scenario
Base Case	225,000	Early 2012	8–10	2.5	End of 2013	Modest GDP Growth Near 3.0%	On hold until mid-2012
Bull Case	325,000	Year End 2011	6	1.75	Early 2013	Robust GDP Growth Near 4.0%	Stimulus starts to be removed in late 2011
Bear Case	125,000	Late 2012	16	4.25	Late 2015	Very Sluggish GDP growth below 2.0%	More stimulus from the Fed

Source: LPL Financial Research 07/05/2011

The economic forecast set forth may not develop as predicted and there can be no guarantee that the strategies promoted will be successful.

1 State and Local Governments Have Shed More Than 500,000 Jobs in the Past Three Years, and More Job Cuts Are Likely Over the Next Several Years



Source: Haver Analytics 07/05/11

(Shaded areas indicate recession)

The pace at which the private sector economy creates the next two million jobs will determine the ultimate fate of the now two-year-old economic recovery.

2011, the private sector economy shed 8.8 million jobs during the Great Recession and its aftermath.

Over in the public sector (federal, state and local government employment), the employment situation remains grim. In the state and local sector alone—at just over 19 million, this sector accounts for over 15% of all jobs in the United States economy—more than 525,000 jobs disappeared in the past three years. We expect similar job loss numbers in the public sector in the months ahead as state and local governments struggle with too many costs and not enough revenues. Thus, public sector employment, which has been a source of strength in job creation for many decades, has slowed and reversed course, and is not likely to contribute to the overall jobs picture for months, if not years, to come. The lack of job creation in the public sector is one of the reasons why the economic recovery “feels” more lackluster than it already is.

Turning back to the private sector, the 2.0+ million jobs added over the past 16 months is right in line with job creation seen at similar points in the recoveries from the 1990-91 and 2001 recessions, but pales in comparison to the 3.3 million and 5.5 million jobs created at similar points in the robust economic recoveries of the mid-1970s and early-1980s, respectively. But what about the next two million jobs? The pace at which the private sector economy creates the next two million jobs will determine the ultimate fate of the now two-year-old economic recovery.

Setting aside the robust employment recoveries from the recessions in the mid-1970s and the early-1980s, we can compare how quickly the next two million jobs were created in the so called “jobless recoveries” in the early 1990s and early 2000s. After the private sector economy created two million jobs in the aftermath of the 1990-91 recession, it took the private sector economy only another eight months to create the next two million jobs. Over this eight-month period (mid-1993 through early 1994) the economy created around 250,000 jobs per month as the Fed remained on hold and the economy reacted to an increase in tax rates in mid-1993.

After the private sector created roughly two million jobs in the aftermath of the mild 2001 recession, it took another ten months to create the next two million jobs. Over this ten-month period in 2005, the economy created around 200,000 jobs per month as the Federal Reserve raised interest rates



Using the prior two recoveries as a baseline, a goal of creating the next two million jobs in the next eight to ten months is consistent with monthly job growth of between 200,000 and 250,000 jobs per month, which has been our forecast since the beginning of 2011.

by 175 basis points, the housing market boomed, and fiscal policy in the United States tightened somewhat.

Using the prior two recoveries as a baseline, a goal of creating the next two million jobs in the next eight to ten months is consistent with monthly job growth of between 200,000 and 250,000 jobs per month, which has been our forecast since the beginning of 2011. At this pace of job growth, it would take another two and a half years (end of 2013) for the economy to recoup all the jobs lost in the Great Recession. Under this scenario, the unemployment rate would likely decline modestly, the Fed would remain on hold until mid-2012, and the overall economy would probably grow at around 3.0%, just slightly above its long-term average.

A faster pace of job growth (around 300,000 to 350,000 per month) would create the next two million jobs by the end of 2011, and that outcome would certainly push down the unemployment rate, speed up the Fed's exit from quantitative easing, and ease concerns about the durability of the recovery. At this pace, it would take less than two years (early 2013) to recoup all the jobs lost during the Great Recession. The economy would grow at around 3.5 to 4.0% under this scenario.

On the other hand, if the economy creates around 100,000 or 150,000 jobs per month, it would take another year and a half to create the next two million jobs. This outcome would leave the unemployment rate about where it is now (9.1%), could prompt more monetary stimulus from the Fed, and likely lead to continuous talk about a "double-dip" recession. At this pace of job creation, it would take another four years (late 2015) before the economy recoups all the jobs lost in the Great Recession. Under this scenario, the economy would struggle to grow at around 2.0% per year.

IMPORTANT DISCLOSURES

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Quantitative Easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

Stock investing involves risk including loss of principal.

The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

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