

Weekly Economic Commentary

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Highlights

- This week is heavy on Federal Reserve speakers and light on U.S. economic data, as markets mull Europe and a full slate of Chinese economic reports.
- The JOLTS data, along with the October employment report reveal that the labor market continues to heal, but at an excruciatingly slow pace.

Economic Calendar

Monday, November 7 Consumer Credit <i>Sep</i>	Thursday, November 10 Initial Claims <i>wk 11/5</i>
Tuesday, November 8 Small Business Sentiment <i>Oct</i>	Trade Balance <i>Sep</i>
JOLTS Job Openings <i>Sep</i>	Import Price Index <i>Oct</i>
Wednesday, November 9 MBA Mortgage Applications Index <i>wk 11/4</i>	Treasury Statement <i>Oct</i>
Wholesale Inventories <i>Sep</i>	Friday, November 11 U of M Consumer Sentiment <i>Nov</i>

Can The Labor Market JOLT the Economy?

The upcoming week (November 7–11) is heavy on speakers from the Federal Reserve (Fed) and relatively light on U.S. economic reports, providing markets ample time to reflect on the October employment report and to focus on the deliberation of the congressional super-committee and the latest news in Europe. The next round of Chinese economic data for October is due out this week, as the market continues to debate the hard landing/soft landing issue in China. We will continue to watch the “center of gravity” at the Fed—Chairman Bernanke, Vice-Chair Yellen and New York Fed President Dudley—for any shift in tone.

Aside from the regular weekly reports on retail sales and initial claims for unemployment insurance, none of this week’s batch of economic data in the United States is likely to be market moving. There are a number of Fed speakers this week, as market participants mull over last week’s Federal Open Market Committee (FOMC) meeting as well as the press conference held by Fed Chairman Bernanke. This week’s speakers range from very hawkish (Fed officials known to favor the low inflation side of the Fed’s dual mandate from Congress) to very dovish (Fed officials known to favor the full employment side of the dual mandate). The hawks slated to speak this week are Philadelphia Fed President Charles Plosser and Minneapolis Fed President Narayana Kocherlakota. The doves on the docket this week are San Francisco Fed President John Williams, Chicago Fed President Charles Evans and Boston Fed President Eric Rosengren.

It is likely that the hawks will say that the Fed is putting too much monetary stimulus in the system, and equally as likely that the doves will say the Fed needs to do even more to support the economy. While the media will likely focus on the extremes, we will continue to watch the Fed’s “center of gravity”—Bernanke, Yellen and Dudley—for any shift in tone at the Fed. Two of the three (Bernanke and Yellen) are set to make public appearances this week. We continue to expect the Fed to pursue historically accommodative monetary policy in the period ahead. Even if the economy tracks to the market’s expectations (roughly 2.0% real gross domestic product growth in 2012 and 2.5% in 2013), the Fed is likely to ease even more in 2012 (via additional purchases of Treasury securities or mortgage-backed securities in the open market), as the Fed’s forecast for economic growth and the unemployment rate remains more optimistic than the market’s. The next FOMC meeting is in mid-December.

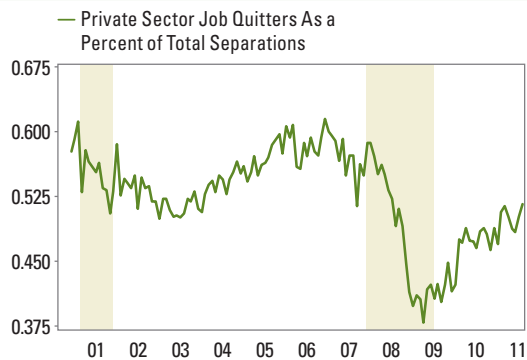


In our view, fears of a hard landing in China (and related issues like China's banking system and property market) are waiting in the wings to replace Europe and the U.S. fiscal situation as the financial market's concern du jour.

This week's economic calendar is filled mainly with second-tier reports on the economy and with little in the way of corporate earnings news on tap this week, markets are likely to continue to focus on Europe, the super-committee's deliberations on the federal budget and on the full docket of Chinese economic reports for October.

Unlike most developed markets (and most emerging markets), where the economic data calendar is set well in advance, the Chinese economic data calendar is relatively flexible. Reports on Chinese industrial production, retail sales, exports and imports, and perhaps money supply and new loans are likely to be released this week, as market participants continue to debate whether or not Chinese authorities can guide China's economy, the world's second largest, to a soft landing. Although fears continue to swirl in the marketplace about a so-called "hard landing" — a sharp and unwanted slowdown in economic growth in China to around 5 or 6% from the current growth rate around 9% — our view remains that China can achieve soft-landing growth of 7 to 8%, and that Chinese authorities are close to taking steps to stimulate the Chinese economy. In our view, fears of a hard landing in China (and related issues like China's banking system and property market) are waiting in the wings to replace Europe and the U.S. fiscal situation as the financial market's concern du jour.

1 The Percent Of Job Quitters is Climbing, A Healthy Sign for the Labor Market



Source: Haver Analytics 11/7/11

The JOLTS Data and the Labor Market

One report due out this week that we like to watch, but one the market seems to ignore, is the job openings and labor turnover (JOLTS) report. The JOLTS report does not get a lot of attention, mainly because it is dated (the report due this week is for September), and the market already has plenty of information on the labor market in October. However, the JOLTS data provides more insight into the inner workings of the labor market than the monthly employment report does.

JOLTS provides data on:

- The number of job openings (there were just over three million open jobs at the end of August)
- The number of new hires in a given month (four million positions were filled in August)
- Job separations (just under four million people left jobs in August)

The data is conveniently broken down by industry group and by region as well. On the surface, the data reveals just how dynamic the U.S. labor market is, demonstrating how the economy creates (and destroys) tens of millions of jobs a year. Digging a little deeper, one of our favorite components of the JOLTS data can be found within the data on job separations.

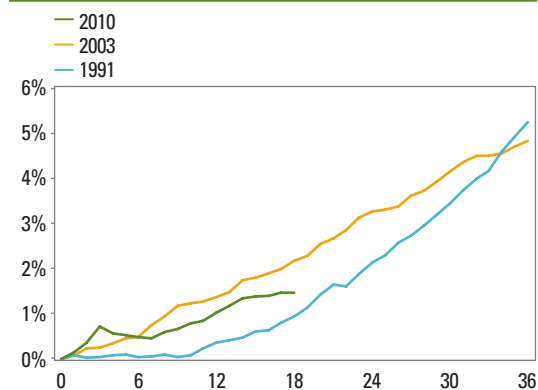
People are separated from their jobs either voluntarily (they retire or quit to take another job) or involuntarily (they are laid off or fired from their jobs). As noted above, just under four million positions were eliminated in August. About half of these (two million) came as a result of people leaving their current positions voluntarily. While not quite back to "normal" — during the



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mid-2000s economic expansion in the United States, roughly 55% of job separations were the result of workers voluntarily quitting their jobs—the percentage of job quitters in August was far above the recession lows. In early 2009, during the worst of the Great Recession, only 37% of separations were voluntary, suggesting that layoffs and downsizing accounted for nearly two-thirds of job separations. The steady climb higher in recent months of the number of job separations that are voluntary suggests that the labor market is healing, albeit slowly, as individuals are becoming more and more confident in the labor market. After all, you would not likely leave a job in today's environment unless another job was waiting for you.

2 Job Creation In This Recovery Is In Line With the Recoveries From the 1990–91 and 2001 Recessions



Source: LPL Financial, Bloomberg Data 11/4/11

As noted in last week's employment report for October, the labor market is healing, but still has a long way to go. The data further undercuts the notion that the economy is in, or about to enter, a recession, although it does suggest only sluggish growth (2.0 to 2.5% GDP growth). The economy created 80,000 jobs in the month (expectations were for an increase of 125,000), but the job count in the prior two months was revised up by a combined 102,000, taking some of the sting out of the below-consensus October reading. The private sector created 104,000 jobs in October, as state and local governments shed another 22,000 jobs.

Over the past three months, the private sector has added an average of 122,000 jobs per month; good, but not great. The private sector economy shed 8.8 million jobs between December 2007 and February 2010, but has added just 2.8 million of those jobs back since then, creating jobs in each of the past 20 months in the process. The increase in the number of private sector jobs over the past 20 months is in line with the pace of job creation seen during recoveries from the last two recessions (1990–91 and 2001), as seen in [Chart 2](#). The payroll job count data is culled from a survey of 440,000 business establishments across the country.

The unemployment rate, calculated from a survey of 60,000 households across the country—a huge sample size for a national survey given that most polling on national elections survey only a few thousand people at most—dipped 0.1% to 9.0% in October. The unemployment rate is calculated by dividing the number of unemployed persons (about 14 million) by the total number of people at work or looking for work (about 154 million). The details of this household survey were solid, as the survey's count of employment increased by 277,000, the third consecutive sizeable gain (275,000+). The number of persons in the labor force (at work or looking for work) increased for the third consecutive month as well.

On balance, the labor market remains stuck in neutral. The economy is growing just enough to produce some job growth, but not quickly enough to substantially lower the unemployment rate or the number of people filing for new unemployment benefits each week. In short, the economic and policy uncertainty that is restraining the rest of the economy is still clearly being felt in the labor market, and only a resolution of that uncertainty will lead to an improved labor market in the months and quarters ahead.



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Job Openings and Labor Turnover Survey (JOLTS) is a survey done by the United States Bureau of Labor Statistics to help measure job vacancies. It collects data from employers including retailers, manufacturers and different offices each month. Respondents to the survey answer quantitative and qualitative questions about their businesses' employment, job openings, recruitment, hires and separations. The JOLTS data is published monthly and by region and industry.

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