US EMPLOYMENT REPORT PREVIEW

23rd Nov. 2011

CAPITAL ECONOMICS

Better economy starts to help young workers

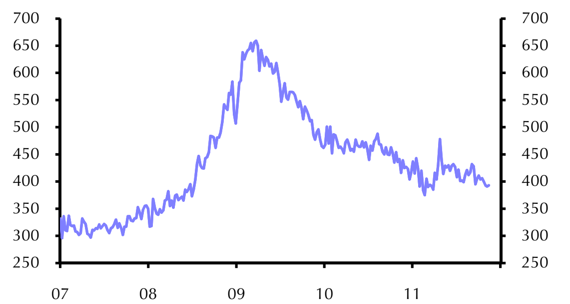
Our employment model suggests that the recent improvement in economic activity is consistent with non-farm payrolls increasing by around 100,000 in November, up from October's 80,000 gain. It is also encouraging that businesses have started to take a chance on young workers again.

Modest improvement everywhere you look

Although payroll employment rose by a fairly modest 80,000 in October, upward revisions to previous months' data provided a clearer sign that labour market conditions have improved a bit. For instance, the initial estimate that payrolls were unchanged in August has since been revised to a 104,000 increase.

What's more, pretty much all of the other indicators look more upbeat than they did a few months ago. In October the employment balances of the two ISM activity surveys rebounded to levels last seen in July and the Monster employment index rose to a level not seen in the three years since Lehman Brothers collapsed. And in the first three weeks of November, initial jobless claims were below 400,000. (See Chart 1.)

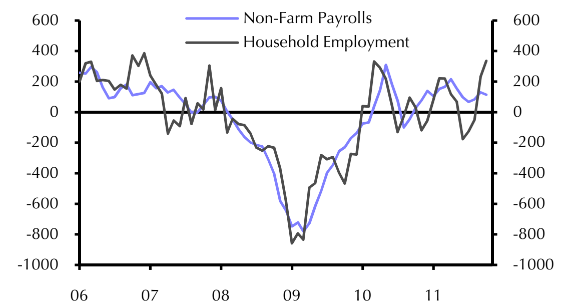
CHART 1: INITIAL JOBLESS CLAIMS (000S)



Source – Thomson Datastream

What's more, the alternative household survey measure of employment increased by a robust 277,000 in October. That came on the back of even stronger gains in the previous two months to suggest that, in just three months, the economy created slightly more than one million jobs. (See Chart 2.)

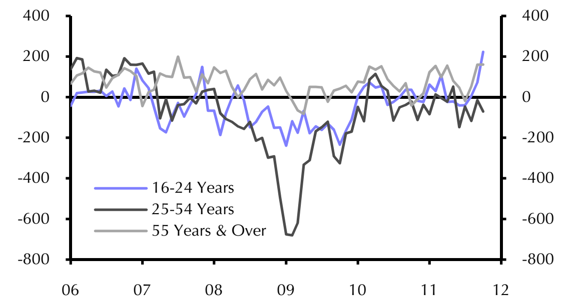
CHART 2: CHANGE IN EMPLOYMENT (3 MTH AVERAGE, 000S)



Source – Thomson Datastream

Some of the strength in this measure of employment may reflect a bounce back after the falls in the spring. But it is interesting that all of the rise in the last three months has been due to gains in employment of those aged between 16 and 24 and those over 55. Just under 700,000 more young workers have been employed in the last three months. (See Chart 3.) That may be a good sign if it means firms are feeling confident enough to take on and train those with less experience.

CHART 3: CHANGE IN HOUSEHOLD EMP. (3MTH AV., 000S)



Source – Thomson Datastream

Overall, our econometric model points to a gain in payrolls of around 100,000 in November. That would be consistent with the unemployment rate staying at 9.0%. The near-term momentum in the economy means payrolls may rise faster in the coming months. But this may not be sustained if GDP growth slows next year, as we expect.

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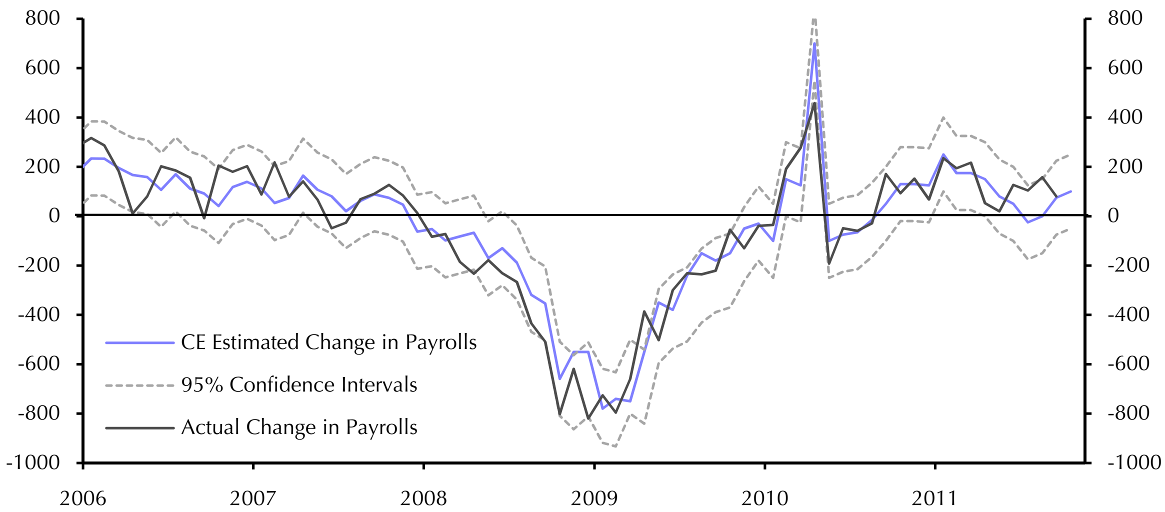
US EMPLOYMENT DATABANK

	2011									Implication for Payroll Growth
Labour Market Indicators	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**[1]	
Jobless Claims (Monthly Ave.)	395	409	427	428	415	411	418	405	-	Better
Jobless Claims (for week including the 12th)	394	404	414	429	422	412	428	404	393	Better
Challenger Job Cut Announcements (SA)	48	36	38	47	66	58	127	47	-	Better
Help Wanted Online New Ads Index	1.64	1.60	1.66	1.60	1.58	1.60	1.55	1.53	-	Worse
Monster Employment Index	136	145	143	146	144	147	148	151	-	Better
ISM Manufacturing Employment Index	63.0	62.7	58.2	59.9	53.5	51.8	53.8	53.5	-	Worse
ISM Non-Manufacturing Employment Index	53.7	51.9	54.0	54.1	52.5	51.6	48.7	53.3	-	Better
ADP Private Payroll Employment Survey	203	179	35	144	107	85	116	110	-	Worse
CE Estimated Change in Payrolls[2]	175	175	150	80	50	-25	0	75	**100**	
Consensus Forecast	192	198	200	90	100	100	60	100	**110**	
Actual Change in Payrolls	194	217	53	20	127	104	158	80	-	
Other Employment Report Data										**Consen. Fore.**
Unemployment Rate	8.8	9.0	9.1	9.2	9.1	9.1	9.1	9.0	**9.0**	**9.0**
Change in Household Employment	291	-190	105	-445	-38	331	398	277	**100**	**-**
All Employees Hours Worked	34.3	34.4	34.4	34.3	34.3	34.2	34.3	34.3	**34.3**	**34.3**
All Employees Ave. Hourly Earnings (%m/m)	0.0	0.2	0.4	0.0	0.5	-0.2	0.3	0.2	**0.1**	**0.2**
All Employees Ave. Hourly Earnings (%y/y)	1.8	1.8	2.0	1.9	2.3	1.8	1.9	1.8	**2.0**	**2.1**

(1) Figures in blue are forecasts (2) Based on the CE econometric model of payroll growth that includes effects from jobless claims, changes in temporary employment, the ISM employment indices and change in hours worked. From 2001 to 2010, the CE model error was 81,000 compared with the Bloomberg consensus error of 94,000.

ACTUAL & ESTIMATED CHANGE IN PAYROLLS (000S)



Sources – Thomson Datastream & Capital Economics

Capital Economics

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