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Data Watch

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AUGUST EMPLOYMENT REPORT

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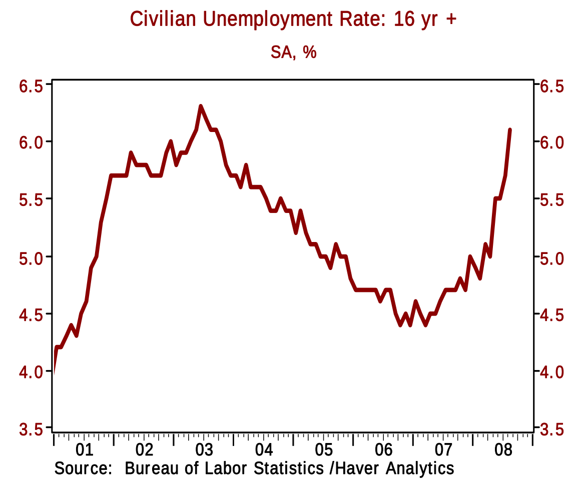
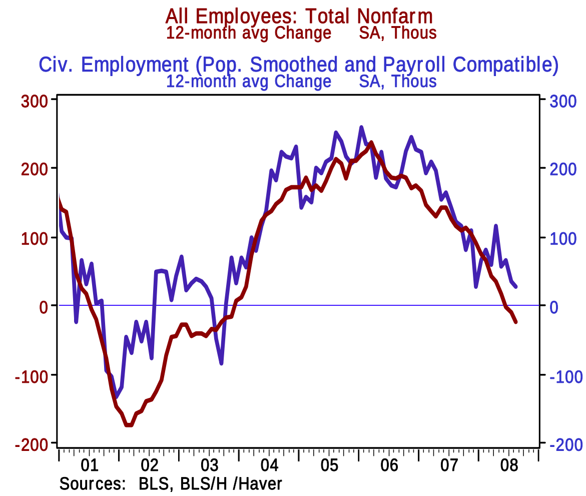
- Non-farm payrolls declined 84,000 in August while revisions to June and July subtracted 58,000 jobs, resulting in a net loss of 142,000. The consensus expected a loss of 75,000.
- Private (non-gov't) payrolls declined 101,000 in August. The weakest job categories were manufacturing (down 61,000), temps (down 37,000), and retail (down 20,000). The strongest sector was education/health (up 55,000).
- The jobless rate increased to 6.1% in August. The consensus had expected the rate to remain unchanged at 5.7%.
- Average hourly earnings rose 0.4% in August and are up 3.6% versus a year ago, both higher than expected.





Implications: The headlines from today's jobs report are ugly, but key details show we are not in recession. At 6.1%, the jobless rate is now the highest since 2003 and – including revisions to previous months – payrolls fell 142,000 in August. However, almost all of the negative revisions to June/July were in the government sector and the data on hours worked are not recessionary. Hours are down 0.6% versus last year; every recession in the past 40 years has had a decline of 3% or more. Meanwhile, average hourly earnings rose 0.4% in August and are up at a 4.3% annual rate in the past three months, an acceleration that rarely happens in recessions. Another hopeful sign is that the share of private industries adding jobs hit 48.9% in August, the highest in almost a year. Three main factors are causing labor market weakness: (1) intense problems in home building and energy-related industries; (2) the aging of the population, which has lowered the long-term trend in employment growth; and (3) a re-acceleration in productivity growth, which tends to cost jobs in the short run while raising living standards and jobs in the long run. The labor market is a lagging indicator of economic activity. Real GDP growth accelerated in Q2 and we believe will remain healthy in Q3/Q4. As a result, job losses will turn to gains before year end.

Employment Report *All Data Seasonally Adjusted*	Aug-08	Jul-08	Jun-08	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**6.1**	5.7	5.5	5.8	5.5	5.2
Civilian Employment (monthly change in thousands)	**49**	-355	251	-18	9	28
Nonfarm Payrolls (monthly change in thousands)	**-84**	-60	-100	-81	-74	-24
Construction	**-8**	-20	-50	-26	-36	-36
Manufacturing	**-61**	-38	-44	-48	-44	-35
Retail Trade	**-20**	-18	-8	-15	-24	-18
Finance, Insurance and Real Estate	**-3**	-3	-13	-6	-4	-9
Professional and Business Services	**-53**	-17	-55	-42	-36	-10
Education and Health Services	**55**	51	71	59	55	48
Liesure and Hospitality	**-4**	-5	0	-3	2	15
Government	**17**	6	10	11	21	23
Avg. Hourly Earnings: Total Private*	**0.4%**	0.4%	0.3%	4.3%	3.7%	3.6%
Avg. Weekly Hours: Total Private	**33.7**	33.7	33.7	33.7	33.7	33.8
Index of Aggregate Weekly Hours: Total Private*	**-0.1**	-0.1	-0.1	-1.1	-0.9	-0.6

**3, 6 and 12 month figures are % change annualized*

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