

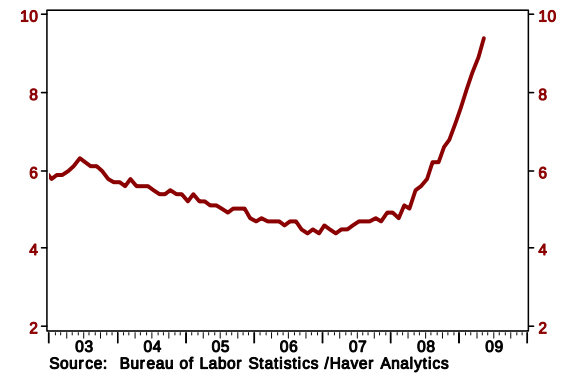
MAY EMPLOYMENT REPORT

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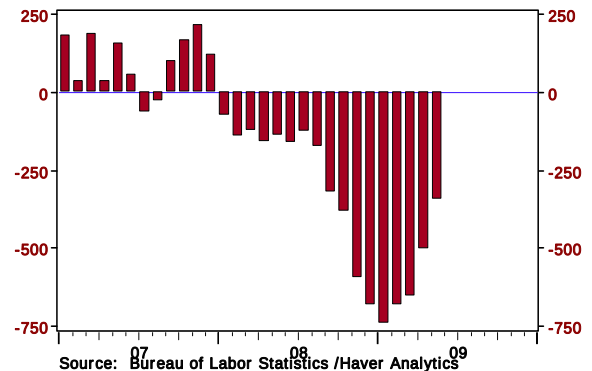
- Non-farm payrolls smashed through the upside of consensus expectations in May, declining by 345,000, while revisions to March and April added 82,000 jobs. Combined, this brings the net job loss in May to 263,000. This is *substantially* better than the consensus expected decline of 520,000 jobs and the smallest drop since August 2008.
- Although payrolls declined in most major sectors, the pace of the declines slowed down considerably. For example, construction payrolls declined by an average of 117,000 per month in the prior six months but only 59,000 in May. Retail went from losing 64,000 per month to only 18,000 in May. Temp help (often a leading indicator for broader job movements) went from losing 73,000 per month to only 7,000 in May.
- As usual, health and education jobs continued to increase (+44,000), but by the most in six months. Meanwhile, hotel jobs increased for the first time since before the recession started and restaurant/bar payrolls increased the most since December 2007.
- Due to a surge in the number of people actively seeking jobs, the jobless rate increased to 9.4% (9.357% unrounded) from 8.9% in April, higher than the consensus expected 9.2%.
- Average hourly earnings increased 0.1% in May and are up 3.1% versus last year.

Implications: The jobs report strongly supports our call that the economy bottomed in May and is now in the early stages of a V-shaped recovery. Businesses are shedding jobs at a much slower pace than earlier this year and we would not be surprised to see payrolls start to increase by the end of the summer. The speed of the turnaround cannot be ignored. Private-sector payrolls fell 749,000 in January. In the four months since, payrolls have declined at a consistently slower and slower rate, reaching -338,000 in May. In addition, for the first time since late 2007, we got positive payroll revisions for previous months. Upward revisions are usually associated with economic expansion, not recession. After the collapse of Lehman Brothers last September, monetary velocity plummeted, with both businesses and consumers pulling back from any activity they deemed unnecessary. Now, restaurants and bars are adding payrolls again, a sign that consumer behavior is returning to normal. While some analysts may focus on the rise in the unemployment rate to 9.4%, much of the increase was due to an increase in the labor force, which has risen by more than 1 million workers in the past two months. Without this increase the jobless rate would be a much lower 8.7%.

Civilian Unemployment Rate: 16 yr +
SA, %



All Employees: Total Nonfarm
1-month Change SA, Thous



Employment Report All Data Seasonally Adjusted	May-09	Apr-09	Mar-09	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	9.4	8.9	8.5	8.9	8.3	7.2
Civilian Employment (monthly change in thousands)	-437	120	-861	-393	-528	-418
Nonfarm Payrolls (monthly change in thousands)	-345	-504	-652	-500	-601	-447
Construction	-59	-108	-123	-97	-106	-83
Manufacturing	-156	-154	-172	-161	-183	-131
Retail Trade	-18	-37	-62	-39	-51	-50
Finance, Insurance and Real Estate	-30	-45	-41	-39	-44	-33
Professional and Business Services	-51	-111	-119	-94	-123	-95
Education and Health Services	44	13	20	26	29	35
Leisure and Hospitality	3	-38	-34	-23	-30	-27
Government	-7	92	-4	27	14	12
Avg. Hourly Earnings: Total Private*	0.1%	0.1%	0.2%	1.7%	2.2%	3.1%
Avg. Weekly Hours: Total Private	33.1	33.2	33.1	33.1	33.2	33.4
Index of Aggregate Weekly Hours: Total Private*	-0.7	-0.3	-1.2	-8.4	-8.3	-6.7

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

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