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Data Watch

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APRIL EMPLOYMENT REPORT

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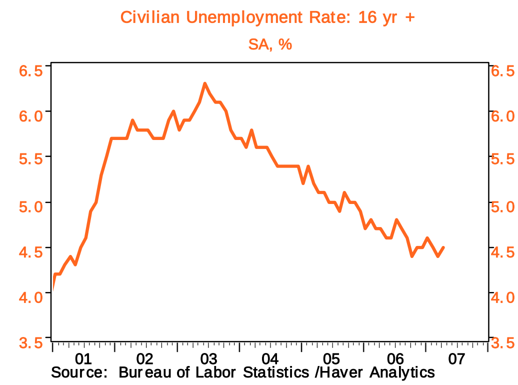
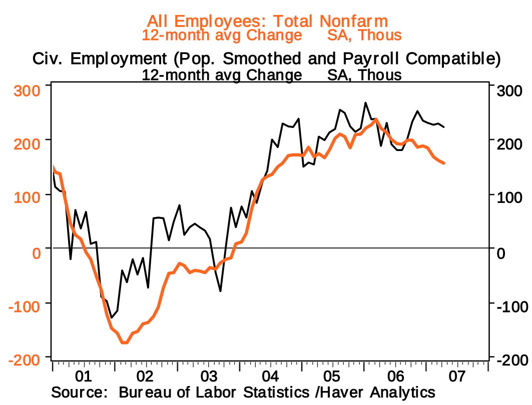
- Non-farm payrolls increased 88,000 in April. Revisions to February and March subtracted 26,000 from payroll growth. Combined, payrolls in April were 62,000 higher than reported a month ago. The consensus expected gain was 100,000.
- Sectors performing well in April included education and health (+53,000), professional and business services (+24,000), leisure and hospitality (+22,000) – particularly restaurants and bars (+25,000) – and government (+25,000).
- Manufacturing payrolls shrunk by 19,000 in April. Construction payrolls dropped by 11,000 after last month's surprising 50,000 gain. Residential construction payrolls contracted by 4,000; non-residential by 6,000. Retail payrolls declined by 26,000, with all the drop attributable to general merchandise stores.
- The unemployment rate ticked up to 4.5%. Un-rounded, the rate was 4.457%. Average hourly earnings increased 0.2% and are up 3.7% versus a year ago, still consistent with nominal wage gains in the late 1990s.





Implications: Today's report suggests April was a mediocre month for the labor market, with payrolls increasing only 88,000, the smallest gain in 29 months. However, we believe the labor market remains fundamentally strong. The government does the payroll survey in the calendar week of the 12th of each month. In April, that particular week was by far the softest. Continuing claims for jobless benefits spiked up that week but have since declined. Given this, we expect payrolls to increase 150,000+ in May. One month of job gains just south of 100,000 with gains of 150,000+ both before and after does not suggest economic weakness. Also, we would not be surprised if payrolls for April are later revised upward. Every month the Labor Department goes back and revises data for the previous two months. In the eleven months through February, the average revision from the original estimate to the "final" estimate has been +40,000. We also note that although the payroll survey is up an average of 157,000 per month in the past year that civilian employment from the household survey, adjusted to reflect the job categories measured by the payroll survey, shows job gains of 223,000 per month.

Employment Report *All Data Seasonally Adjusted*	Apr-07	Mar-07	Feb-07	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**4.5**	4.4	4.5	4.5	4.5	4.6
Civilian Employment (monthly change in thousands)	**-70**	420	-278	24	84	223
Nonfarm Payrolls (monthly change in thousands)	**88**	177	90	118	157	157
Construction	**-11**	50	-77	-13	-5	-2
Manufacturing	**-19**	-18	-17	-18	-15	-13
Retail Trade	**-26**	33	7	5	12	3
Finance, Insurance and Real Estate	**-11**	0	6	-2	3	8
Professional and Business Services	**24**	6	36	22	35	34
Education and Health Services	**53**	49	36	46	44	41
Liesure and Hospitality	**22**	20	29	24	35	35
Government	**25**	20	34	26	20	25
Avg. Hourly Earnings: Total Private*	**0.2%**	0.3%	0.4%	3.6%	3.7%	3.7%
Avg. Weekly Hours: Total Private	**33.8**	33.9	33.7	33.8	33.8	33.8
Index of Aggregate Weekly Hours: Total Private*	**-0.4**	0.8	-0.3	0.8	1.1	1.2

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