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First Trust

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Monday Morning Outlook

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Two Views of the Jobs Picture

Despite the fact that headline "payroll" job losses are significantly smaller than earlier this year, the unemployment rate spiked to 10.2% in October. This is the highest since the aftermath of the brutal 1981-82 recession, when the jobless rate peaked at 10.8%.

Many are arguing that the unemployment rate is the better indicator and that the economy is still in a great deal of trouble. So it's time once again to look at how jobs data are calculated. The Labor Department uses two completely different surveys: the payroll (or "establishment") survey and the household survey.

The payroll survey covers about 400,000 public and private worksites around the country. It asks employers how many are on the payroll and this data generates the "payroll" data each month. For example, last month payrolls fell by 190,000, or only 90,000 including the positive revisions to previous months.

The "household survey" phones or visits 60,000 homes around the country, asking people whether they are working or looking for work. This gives us what is called "household" employment and the unemployment rate. Last month, household employment fell by 589,000 and the unemployment rate rose 0.4%.

The best quality of the payroll survey is that it's so large it removes some month-to-month volatility The best part of the household survey is that it captures small business better and covers more kinds of jobs than the payroll survey, in particular the self-employed.

Normally, in the early stages of an economic recovery the household survey starts picking up improvement earlier than payrolls. But that has not happened this time around, when the payroll survey has been improving faster than the household survey.

Payroll losses have averaged 188,000 over the past three months, substantially smaller than the 700,000 per month early this year. The 3-month average of payroll losses has been smaller in each of the past eight months. Temp payrolls – often a leading sign of overall job creation – increased for the third month in a row in October.

Meanwhile, job losses measured by the household survey have re-accelerated, averaging 589,000 in the past three months versus a much smaller 230,000 per month in the second quarter. Some analysts take this to mean the economic recovery that started mid-year is a false one, about to be severely curtailed.

We doubt that. Instead, we notice that the ratio of payrolls to household employment was remarkably steady between 2003 and 2008. Then, earlier this year, the ratio suddenly plummeted as payrolls dropped much more than household employment. The past few months have simply brought this ratio back into alignment. Now, we expect the normal cyclical trend to reassert itself, with self-employment adding to household employment, pushing it up faster (or down slower) than payrolls. Part of this will be due to the nascent turnaround in home building, where many contractors are self-employed.

Given that real GDP growth exceeded 3% in Q3 and has been accelerating in Q4 – something that did not happen in the early stages of the 1991 or 2002 recoveries – we are likely at or very close to the peak in unemployment. Right now, we are forecasting that real GDP grows at about a 4.5% rate in 2010. If correct, this suggests the jobless rate will decline by a percentage point (or more) next year.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-12 / 7:30 am	Initial Claims - Nov 7	510K	**512K**		512K
1:00 pm	Treasury Budget - Oct	-$155.0Bil	**-$175.0 Bil**		-$46.6 Bil
11-13 / 7:30 am	Int'l Trade Balance - Sep	-$31.8 Bil	**-$30.8 Bil**		-$30.7 Bil
7:30 am	Export Prices - Oct	+0.2%	**+0.0%**		-0.3%
7:30 am	Import Prices - Oct	+1.0%	**+1.1%**		+3.1%
8:45 am	U. Mich. Consumer Sentiment	71.0	**72.0**		66.0