



Weekly Economic Commentary



November 30, 2009

Busy Week Ahead of November Job Reports

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ECONOMIC CALENDAR

Monday, Nov 30 Chicago PMA <i>Nov</i>	Fed's Beige Book
Tuesday, Dec 1 Construction Spending <i>Oct</i>	Thursday, Dec 3 Productivity <i>Q3</i>
ISM Manufacturing <i>Nov</i>	Initial Claims <i>wk 11/28</i>
Domestic Light Vehicle Sales <i>Nov</i>	ISM – Service Sector <i>Nov</i>
Pending Home Sales <i>Oct</i>	Chain Store Sales <i>Nov</i>
Wednesday, Dec 2 Challenger Job Cuts <i>Nov</i>	Friday, Dec 4 Unemployment Rate <i>Nov</i>
ADP Employment <i>Nov</i>	Nonfarm Payrolls <i>Nov</i>
	Factory Orders <i>Oct</i>

As this week's Weekly Economic Commentary was being published, market participants were busy digesting the details of last week's barrage of mostly better than expected economic data, along with the early results from the first weekend of the 2009 holiday shopping season. Last week's package of economic data included reports on:

- Consumer sentiment, jobless claims, and manufacturing activity in November
- Home sales, personal income, personal spending, inflation, business spending, and inventories in October
- Home prices for September and real GDP in Q3 2009

Taken together, these reports continued to suggest that the economy remains on track to post 3.0% GDP growth in Q4 2009, and that the labor market is tracking closer to the robust job recoveries of the 70s and 80s than the jobless recoveries of the 90s and 00s.

In addition, last week's housing data reinforced the idea that the housing market (housing starts, home sales and home prices) has likely bottomed out nationally. Finally, the inflation data released last week confirms that the headline "deflation" the economy has experienced for much of 2009 is ending, and will give way to modest, energy-price driven inflation in the coming months. At 1.4% year-over-year, core inflation (inflation excluding food and energy prices), which is the Federal Reserve's preferred measure of inflation, is poised to decelerate from here, which will allow the Fed to remain on hold for most of 2010. [\[Chart 1\]](#)

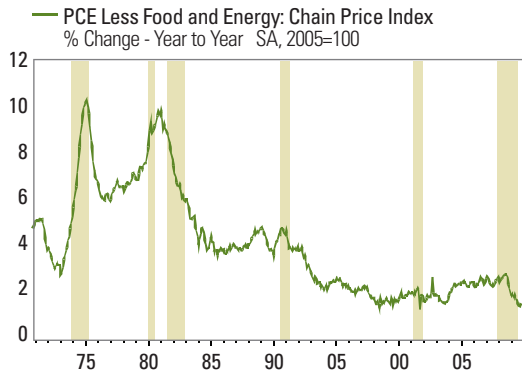
This week, financial markets face another crowded week of economic data and events. The results of the first weekend of holiday shopping will draw a great deal of attention early in the week, but as the week progresses the talk will turn to the November employment report. In between, there will be plenty of news to digest, including:

- Jobless claims, vehicle sales, chain store sales, and manufacturing and service sector activity in November
- Factory orders, pending home sales and construction spending for October

In addition, Fed Chairman Ben Bernanke's confirmation hearing is set for Thursday, December 3. His appearance is likely to cause at least a few ripples in financial markets amidst a very busy week for data, as the questions about the independence of the Fed resurface.

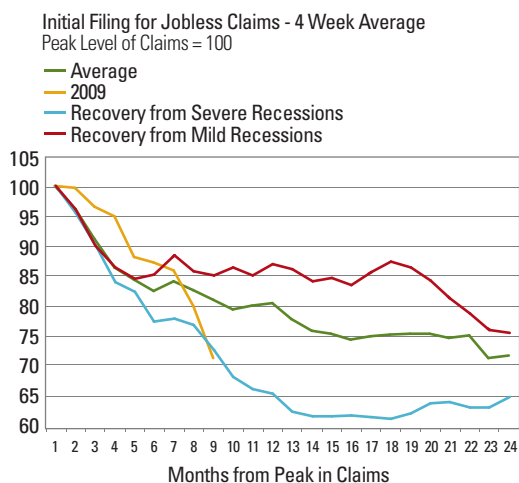


1 At 1.4% year-over-year, core inflation is poised to decelerate from here, which will allow the Fed to remain on hold for most of 2010



Source: Bureau of Economic Analysis/Haver Analytics 11/30/09

2 Jobless claims are no longer tracking toward the jobless recoveries of 1991 and 2001



Source: Haver, LPL Financial

The Week Ahead

The section below provides some observations on this week's key economic releases. Alongside the preview are questions that markets, the media and, yes, economists are likely to be asking as the data is released.

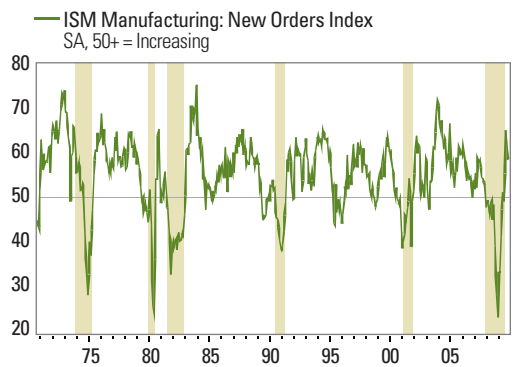
November Employment Data (released throughout the week)

- The employment component of the national ISM report, (Tuesday, December 1) will provide an early window into Friday's nonfarm payroll report.
- As the Weekly Economic Commentary was being published, the employment components of the November Chicago Area Purchasing Manager's Index, the Dallas Fed survey of manufacturing and the Milwaukee Area Purchasing Managers Index were released.
- While the employment reading within the Chicago Area Purchasing Managers index remained below 50 in November, indicating that job losses in the manufacturing sector in that region of the country persisted into November, the employment component of the Milwaukee ISM suggested that manufacturing employment was expanding in that region in November, while the Dallas Fed data suggested that manufacturing employment in Texas remains weak.
- The employment components of several of the regional Federal Reserve Banks (New York, Kansas City and Richmond) for November already indicate that hiring in the manufacturing sector has resumed.
- Through the worst of the recession in late 2008 and early 2009, the ADP employment report (Wednesday, December 2) provided a reliable "early read" on the overall national employment report, as it accurately predicted the direction and magnitude of the job losses. In recent months, however, the ADP report has had a spotty track record, overestimating the number of jobs lost relative to the national report in each of the past six months.
- The Challenger job cut (Wednesday, December 2) data has been a good leading indicator of the labor market in 2009, peaking in January of 2009, roughly two to three months before jobless claims peaked in late March. Layoff announcements fell between September and October 2009, and in eight of the last nine months. In October 2009, layoff announcements were down sharply (51%) from a year ago (October 2008). Another drop in layoff announcements in November would comfort the market. The period in the immediate aftermath of the collapse of Lehmann Brothers in September 2008 saw a sharp ramp up in job layoff announcements.
- The four week average on initial filings for jobless benefits (Thursday, December 3) has now declined for 12 consecutive weeks dating back to late August 2009. At 496,500, the four-week average on claims is down 162,250 from its peak in April 2009. The latest data on claims suggests that the economy is on track to begin adding jobs by January or February 2010. Jobless claims are no longer tracking toward the jobless recoveries of 1991 and 2001, but, instead, have moved closer to the pattern seen in



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3 The new orders series has risen faster in this recovery than in any other recovery since 1970, another below 60 reading could be a signal that the manufacturing recovery will stall



the robust job recoveries from the severe recession in the mid 1970s and early 1980s. We do not think the market has recognized this yet.

- The market expects the November jobs report (Friday, December 4) to show a slower pace of job losses in November versus October. The consensus is looking for a 125,000 drop in payrolls in November versus the 190,000 drop in October. If the consensus is correct, the pace of job loss in October would be the slowest since August 2008.
- We expect the pace of job losses to slow over the next several months, but we do not expect the economy to begin to create new jobs on a sustained basis until early 2010.
- The consensus is looking for the unemployment rate to remain at 10.2% in November.

November ISM (Tuesday, December 1)

- The ISM index of manufacturing has been above the key 41.2 level since May 2009, indicating that while the manufacturing sector was still contracting, the overall economy was expanding.
- In August, the ISM finally pushed above the 50 mark (52.9), and remained above 50 in both September and October, indicating that the manufacturing sector has been expanding since the beginning of August. August's 52.9 reading marked the first time the index had been above 50 since January 2008, and was the highest reading since June 2007.
- The consensus for the November ISM is 54.8, which is below the October reading of 55.7. A reading at or below 55 would probably trigger more talk of an imminent "double dip" recession. Nevertheless, as we note above, the ISM would have to fall below 41.2% to indicate that the overall economy was contracting.
- With the "Is the recession over?" question now largely moot, thanks in part to the healthy 2.8% gain in Q3 GDP, the question the market is asking now is "how strong will the recovery be?". An ISM reading above 60 in November would be an important data point in confirming that the initial stages of the recovery may be stronger than expected. On the other hand, if the ISM slips back below 50, it may raise further doubts about the sustainability of the recovery.
- Along with the employment sub index within the ISM report—which finally moved above 50 in October indicating that employment in the manufacturing area was expanding—, the new orders index will be of interest to the market looking for forward looking information. The new orders series moved above 50 in July to 55.3, and pushed up to 64.9 in August, but fell back to 60.8 in September and 58.5 in October.
- Although the new orders series has risen faster in this recovery than in any other recovery since 1970, another below 60 reading in the new orders index could be a signal that the manufacturing recovery will stall in the coming months.



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In any case, auto production probably needs to increase noticeably over the final months of 2009 to help replenish inventories depleted by cash for clunkers, which will continue to boost GDP.

October Construction Spending (Tuesday, December 1)

- After 14 quarters (dating back to Q1 2006), housing construction was finally a net plus for real GDP growth in Q3 2009.
- Although the housing market has stabilized, the ongoing pain in private non-residential construction (malls, shopping centers, office parks, industrial facilities), which is being impacted by the lack of financing available to developers, is likely to persist for some time to come, probably until the end of 2010. The recent difficulties of Dubai World underscore the fragile nature of the global commercial real estate market.
- Public construction spending is being positively impacted by the infrastructure component of the \$787 billion fiscal stimulus package. The non-partisan Congressional Budget Office notes that more fiscal stimulus funds will influence the economy in 2010 than in 2009.
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November Vehicle sales (Tuesday, December 1)

- October's vehicle sales report surprised market participants, with sales running ahead of expectations.
- Nevertheless, the better than expected results in October (\$10.5 million) were almost immediately dismissed by the markets and viewed as a one-time rebound from the cash for clunkers letdown in September. Vehicle sales in September slipped to a \$9.2 million pace from 14.1 million in August.
- Vehicle sales in November are expected to remain close to the \$10.5 million pace seen in October. As a reminder, vehicle sales were running at a \$15 to \$16 million pace prior to the onset of the recession in late 2007, and ran between \$9.0 and \$9.5 million in early 2009.
- In any case, auto production probably needs to increase noticeably over the final months of 2009 to help replenish inventories depleted by cash for clunkers, which will continue to boost GDP.

November Chain Store Sales (Thursday, December 3)

- There are a number of measures of holiday shopping trends, ranging from the number of cars in mall parking lots all the way to the total dollars spent (cash, credit card, debit cards, checks) in all stores, in person and on line.
- The data we have in hand for sales over the Thanksgiving weekend is mostly anecdotal thus far (parking lot counts, foot traffic in the malls, credit card translations, online purchases, etc), so the market is looking for some "hard" data on spending.
- Later this week, the nation's retailers will report their November sales, and will no doubt comment on the spending trends they saw in their stores, and on their websites, over the Thanksgiving weekend.



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