

Weekly Economic Commentary



June 28, 2010

June Jobs Report Highlights a Busy Week

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Highlights

The June employment report is due out at the end of this busy week for economic and policy events. Census workers will once again distort the report.

Last week was a desultory week for economic news and policy events as Congress failed to extend unemployment insurance benefits.

Economic Calendar

Monday, June 28	Construction Spending
Personal Spending	May
May	ISM Manufacturing
Personal Income	June
May	Pending Home Sales
Tuesday, June 29	May
Consumer Confidence	Domestic Light Vehicle
June	Sales
Wednesday, June 30	June
Chicago Purchasing	Friday, July 2
Managers Index	Unemployment Rate
June	June
ADP Employment	Nonfarm Payrolls
June	June
Thursday, July 1	Factory Orders
Initial Claims	June
wk 06/26	
Challenger Layoff	
Announcements	

The status of the U.S. consumer in June (on both the spending and employment fronts) will likely dominate as the calendar turns from June to July. There are a few reports due out this week on the Chinese economy in June, and the data calendar in Europe is relatively heavy. On the policy front, although the Federal Open Market Committee (FOMC) meeting is now in the rear view mirror, overseas central banks have a busy week ahead. Early in the week, the post-mortem on this past weekend's Group of 20 (G-20) nations meeting in Toronto will dominate, but as the week wears on, the ongoing saga of the financial regulatory reform bill in the United States will linger.

In the United States this week, data on manufacturing for June and pending home sales for May represent the best (manufacturing) and worst (housing sales) of the economy at the moment. Reports on vehicle sales for June and personal income and spending for May will help to round out the market's expectations for economic growth in the nearly completed second quarter of 2010.

While the reports on consumer spending, housing, and manufacturing will attract some attention from markets as they are released throughout the week, the reports on the labor market in June (ADP employment, Challenger job cut announcements, and the latest weekly reading on first time filings for unemployment insurance) will provide a prelude to the most important report of the week, the June jobs report.

Census workers will again distort the report, due out on Friday, July 2. At the peak in early May, roughly 600,000 temporary workers were on government payrolls to help conduct the 2010 Census. By mid June, only about 325,000 were still on the job. Thus, Census workers, which added more than 500,000 to the overall job count in the first five months of 2010 (with 414,000 added in May alone) [Chart 1], will begin negatively affecting the job count in June and over the next several months.

Our best guess is that Census workers will subtract 200,000 to 250,000 from payrolls in June, while private sector employment rises by between 175,000 and 200,000. The market is likely to focus on this private sector figure, although a big drop in payroll employment (inclusive of the drop in Census workers) will make for scary headlines in next week's newspapers. The unemployment rate is likely to have ticked up to 9.8% in June, as some of the laid off Census workers returned to the private workforce.

While there are a few Federal Reserve (Fed) officials slated to speak this week, most of the monetary policy action will take place overseas, with central banks in Israel, Poland, Romania, and Sweden meeting to set rates. Of these, only Sweden is likely to raise rates, although it will be a close call



1 Census Workers Will Again Distort the Nonfarm Payroll Job Count in June



Source: Bureau of Labor Statistics/Haver Analytics 06/28/10

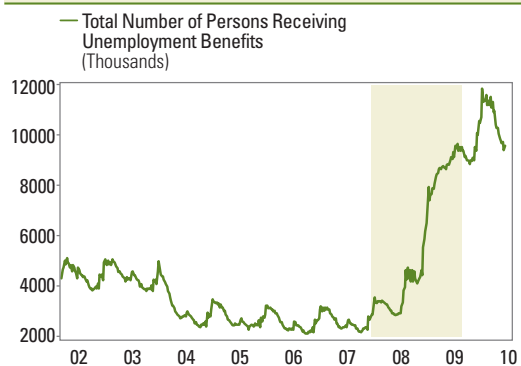
in Israel, as many global central banks have pushed back plans to remove monetary stimulus in light of the uncertain fiscal situation in Europe.

In China, data on leading indicators for May (which was released as this report was being published) and the Chinese purchasing managers' index for June are likely to reveal that the Chinese economy continued to slow from its torrid pace in the first quarter of 2010, but remains a key engine of global growth. In Europe this week, data on inflation and employment for June, as well as retail sales in May will provide the market with a better perspective on the health of the economy in Europe just prior to the onset of what are likely to be significant government spending cuts and meaningful tax increases.

What We Make of Last Week's Key Reports and Events

Last week's news flow across most markets, countries, and economies that we track was decidedly desultory. On the economic front, the data in the United States continued to reflect the "soft spot" we discussed in last week's (June 21, 2010) *Weekly Economic Commentary* and *Weekly Market Commentary*. On the monetary policy front, the Fed's policymaking arm, the FOMC, promised to keep rates low for "an extended period", but also sounded concerned about deflation, Europe, and the pace of growth in the United States.

2 The Number of People Receiving Unemployment Benefits Has Declined Sharply Since the Beginning of 2010, and Will Likely Fall Further As Congress Failed to Extend Some Benefits Beyond This Week



Source: Haver Analytics 06/28/10

Overseas last week, central banks in Norway, Hungary, Iceland, and the Czech Republic left their policy rates alone amid the ongoing fiscal restraint in Europe and the United Kingdom. Tax increases loom (July 1, 2010) in Greece, Spain, Portugal, and Finland as part of the fiscal programs designed to fight out-of-control deficits in Europe. Early in 2011, a similar "value added tax" increase will hit the United Kingdom. In the United States, Congress failed to agree on the funding to extend unemployment insurance benefits, a long-term plus for the fiscal situation in the United States, but at the risk of some short-term pain in the economy and in the labor market.

As previously noted, the failure of Congress to extend funding for emergency unemployment benefits appears to cut both ways, and could distort (at least temporarily) a key weekly metric on the economy. In the short-term, the lack of funding from Congress means that one million people will lose unemployment benefits this week, with an additional two million more recipients losing benefits by mid-July. This will "save" \$33 billion for the federal budget in the process. The question for the economy is can these three million people be easily absorbed into the labor force, along with the more than 500,000 temporary Census workers who are now re-entering the private sector workforce?

One theory is that at least some of the people who were on extended unemployment benefits had turned down employment in the private sector because they were making more by remaining unemployed and collecting benefits. This same theory holds for Census workers. Either way, both the monthly employment report and the weekly readings on unemployment insurance are likely to be impacted by Congress' decision. Time will tell if this was the first step on the path to fiscal responsibility in the United States, or the continuation of an extended "soft spot" in the economy.



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