ABOUT
BILL SULLIVAN

William V. Sullivan, Jr. serves as Chief Economist at JVB Financial Group, working closely with the firm's trading desk, providing analysis and commentary on the U.S. economy and the financial markets. Among his duties are authoring a weekly report on credit market trends and maintaining a regular schedule of conference calls that focus on interest rate developments. He appears frequently on Bloomberg TV and is often quoted in Barron's.

Mr. Sullivan is the familiar voice that JVB features on our weekly conference call, where he discusses the economy and the events that affect the marketplace.

He was previously associated with Morgan Stanley in New York City for more than twenty years, where he was an Executive Director and a Senior Economist in the firm's Retail Fixed Income Division. Bill published a widely quoted weekly letter on the financial markets and was a frequent guest commentator on several business networks, including Bloomberg TV, CNBC, and Fox News.

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Weekly Commentary

by Bill Sullivan, JVB Chief Economist

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Job market remains in a recession

The nation's job market remains mired in a recessionary environment and is unlikely to register any significant improvement over the near term. If anything, the unemployment rate is apt to climb further, with a 10.5% reading possible by mid-year. The rising in trend in joblessness, despite Wall Street's attempt to minimize its significance, will prove to be the dominant economic theme of 2010.

The employment situation report for December that was released last week underscored the lack of progress on the jobs front, despite a massive dose of fiscal and monetary stimulus that began more than one year ago. The household survey, for example, captured nearly a 600,000 drop in civilian employment during the closing month of 2009. That contraction actually exceeded the monthly average decline of 450,000 workers over the last year, suggesting that the employment backdrop remained extraordinarily weak and totally unresponsive to the Government support that has been provided over recent quarters. This consideration was highlighted by the fact that the employment population ratio in December had slumped to 58.2%, down from 60.9% as recently as late 2008. While some observers would applaud the jobless rate holding steady at 10.0% of the workforce, in reality, the unchanged level was another attribute of weakness. Specifically, the labor force shrank by 843,000 individuals last month which reduced the number of adults and teenagers that would be considered unemployed. The huge number of people withdrawing from the labor force is a sign of discouragement that will take a long period of time to reverse. When these individuals reenter the labor market they will swamp the economy's ability to produce new jobs and will eventually create the circumstances for a markedly higher unemployment rate before year-end.

There is little doubt the double digit unemployment rate in December, and the prospects of an even higher reading before too long, will resonate within the corridors of power in Washington, D.C. Clearly, the absence of job creation and the concomitantly high degree of discouragement among households will prompt the Federal Reserve to maintain its commitment to keep interest rates low for an extended period. Indeed, a pronounced shift in its approach at this month's Federal Open Market Committee meeting seems virtually impossible, given the comprehensive weakness attendant to the nation's labor market setting as 2009 came to a close. Of course, there are some commentators that are calling for the Fed to tighten policy to prop the exchange value of the dollar. However, this attitude appears wide of the mark as the U.S.

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currency will exhibit firmness only when the economy and the employment situation reveal genuine, self-sustained growth. A higher Fed funds target will do little to strengthen the greenback if the economy continues to under perform.

It is also apparent that the persistent weakness in employment will elicit strong responses from elected officials as the year progresses. The advocacy for another round of fiscal stimulus to create jobs will accelerate dramatically, especially in the Congress. President Obama will probably devote a large share of his State of the Union address to focus on the economy and getting Americans back to work. For sure, Republicans will describe the jobs situation as an indication of how the Administration has mismanaged the economy and, unless there is legitimate improvement in the next few months, the G.O.P. could be in a position to pick up a sizeable number of new seats in both the House and Senate at the November elections.

Admittedly, the risk of a double dip recession seems remote as 2010 gets underway. But the risks are not zero, particularly if the employment situation fails to reveal vigor before too long. The current environment is without precedent and past experiences play no role in shaping how the economy will perform later this year and beyond. The maintenance of a high level of joblessness will reinforce the perception to most households that the Government's stimulus is unworkable and will do little to restore private sector hiring. Moreover, if the Wall Street rally continues for a while longer as the jobless rate climbs to new highs, many Americans will conclude that the support programs of the last year were not truly designed for their own well being. Against this backdrop, households will refrain from taking economic risks. To some extent, this approach is already operative, given the huge pay down in consumer debt that is now taking place. The unwillingness to take on additional credit burdens will curb personal spending and must be regarded as a major downside risk to the economic outlook. ■

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