JVB FINANCIAL

Weekly Commentary
by Bill Sullivan, JVB Chief Economist

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Anemic at best

Considering all the factors that could have given the labor force a lift during the month of March, the actual results appear disappointing. Indeed, better weather, a relatively early Easter holiday, in addition to some hiring of Government employees for the Census, were judged as having the capability of pushing the monthly gain in non-farm payrolls to just short of 300,000 workers according to some Wall Street estimates. Instead, the reported gain fell well short of those optimistic projections. Moreover, several data series that are part of the employment report continued to portray a labor market setting that contained significant structural weaknesses that could act as major headwinds against the overall recovery process as the year progresses.

Perhaps the most worrisome attribute to the March employment statistics is that there is little evidence that the jobless picture is revealing any signs of meaningful improvement. As an example, the number of unemployed workers actually rose by 134,000 individuals last month and once again exceeds 15.0 million people. In addition, the chronic nature of joblessness that has characterized the current cycle got worse as the first quarter came to a close. Specifically, the number of individuals that have been without a job for at least one-half year leapt by over 400,000 individuals in March and now comprise a record 44.1% of the total pool of unemployed workers. Similarly, the average duration of unemployment continued to climb, rising by 1.5 weeks to 31.2 weeks, a new high for this measure as well. Reinforcing the lack of employment opportunities, the jobless rate for full-time workers remained at 10.5% while the expanded series, which includes those marginally attached to the labor force, rose for the second month in a row, posting 16.9% for March.

The rebound in the hours worked series, in our judgment, also left something to be desired. The sharp pullback during February in these measures was commonly viewed as a byproduct of the inclement weather that prevailed during the survey week. As a result, expectations built that major increases would be revealed for the March period as the prior month's lost ground was recaptured and the economy's general momentum provided an additional boost. In contrast to that viewpoint, the workweek measures only returned to their January pre-storm readings of 33.3 hours for production workers and 34.0 hours for all employees. The modest upward adjustment in the workweek measures occurred in the context of declining wages. Average hourly earnings for all workers fell two cents during March with lower pay being evident in several industries including manufacturing, business services, health care and wholesale trade. The persistent softness in take home pay has forced households to dip into savings over recent months in order to maintain a somewhat stronger pace of consumption. Unless some appreciable improvements in

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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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compensation do take place fairly soon – which seem doubtful in our perspective given the huge slack attendant to the current labor market environment – household spending could retreat. This consideration is especially applicable to discretionary items, should the recent rise in energy costs remain in place.

Admittedly, to observe an upturn in payrolls during March is a welcome development for the White House and the Federal Reserve. However, the brutal reality is that business firms are not providing a sufficient number of new jobs to establish a platform for a sharp drop in the unemployment rate or the current level of chronic joblessness. Although many observers will call attention to the laggard nature of unemployment in past cycles, it is doubtful that concept applies to the workforce during 2010 and beyond. Among the clear cut impediments to aggressive job creation are the tightened credit standards that most lenders are maintaining and the added costs that are now associated with worker health care. Also, the fact that an important shift in political power could take place in the November elections that may bring into play a revised agenda for the business community may be operating as a restraint on new hiring as well.

Against this backdrop, it is doubtful the Federal Open Market Committee will actively consider anytime soon a boost to its Federal funds target. Of course, symbolic increases in the Discount Rate can't be ruled out, but a higher cost of overnight money in the context of major long-term unemployment seems improbable. This consideration is rendered even more plausible when referenced against the renewed slippage in the core rate inflation. The weakness in non-food/non-energy prices reflects a competitive retailing milieu that is obviously linked to the tepid performance in personal incomes. At a minimum, the present objective for Fed funds should be maintained through the summer months. The historically low cost of carry could help prevent any major increases in Treasury yields over the period immediately ahead. For sure, if economic data don't live up to consensus forecasts in the months ahead, the low Federal funds target would then provide the nucleus for a measurable rally in Treasury security prices and a visible flattening in the slope of the yield curve. ■

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