Broker Dealer / Institutional / Advisor Use Only

JVB FINANCIAL

Weekly Commentary
by Bill Sullivan, JVB Chief Economist

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.

Mr. Sullivan received his Bachelor of Arts Degree in Economics from Fairfield University.

July 7, 2009

Job markets erode as stimulus talk reaccelerates

The June jobs report was a sober reminder of how different the current recession has been as compared to previous business cycle contractions during the post-World War II period. Indeed, the layoffs have been huge by past standards and have incorporated virtually every major sector of the economy. The downturn also seems to be recalibrating the workforce as more employees are being forced into part-time positions. Moreover, the erosion in overall activity seems to be taking a much larger toll in relative terms on adult males, a development that only adds to the downward momentum in aggregate take-home pay. The disappointing performance in the employment situation has not only prompted investors to reconsider the timing of any rebound, the dismal news has also generated reports that the Administration could be contemplating a second Government stimulus program later in the year.

The latest input on the domestic labor market reinforced the consideration that a single figure, such as non-farm payrolls, will not provide a sufficient review of ongoing employment conditions. Rather, focus also needs to be directed towards other variables as well to assess the degree of stress that is being placed on the general economy via the weakened employment environment. Perhaps the most salient example of the need for a broader perspective is the persistent shrinkage in the length of the private workweek. According to the Labor Department, the workweek declined again in June, falling one-tenth of an hour to 33.0 hours, an all time low for this series. Needless to say, the shorter workweek is curbing wage growth, with weekly earnings expanding at just a 0.9% annual rate as the second quarter came to a close.

The shorter workweek is a direct function of a sharp rise in the number of part-time employees on industry payrolls. In June, 27.3 million individuals were classified as part-time workers, representing 19.5% of total employment. In contrast, at the end of calendar year 2007, only 24.6 million workers were considered part-time with that pool making up 16.7% of all employees. To provide additional perspective, in November, 2007, the jobless rate for full-time workers was initially pegged at 4.6% while the part-time rate was placed at 5.0%. Last month, the full-time unemployment rate had climbed to 10.3%, well above the part-time reading of 5.9%. Clearly, business firms have been harboring labor during the current recession, trying to avoid layoffs by pruning the length of the workweek or shifting to part-time employment. This strategy creates another layer of risk for the economy. Specifically, unless business quickly rebounds, corporations may begin to prune their part-time staffs, adding further upward pressure to the nationwide unemployment rate later this year and into 2010.

Another unique attribute to the current labor market setback is the uneven nature of layoffs by gender. In particular, as of June, the unemployment rate for adult males was up to 10.0%. For females 20 years and over, the nationwide jobless rate was only 7.6%, or 2.4 percentage points below the male reading. Just before the recession got underway, the unemployment rate for both categories was 4.1%, underscoring the markedly higher pace of layoff activity for male workers over the last eighteen months. The disparity of gender-related joblessness is even greater when reviewing specific age brackets. Last month, the unemployment rate for adult males between 20-24 years old

(Continued on page 2)

(Continued from page 1)

had surged to 17.2%, versus 12.8% for females. Similarly, in the 25 to 34 year old grouping, the male jobless rate was placed at 11.4% or nearly three percentage points above the female reading. No doubt, some of the differential in unemployment rates by gender is attributable to the large job losses in construction and manufacturing, sectors that are dominated by male employees. It is also possible that since male workers tend to earn more than their female counterparts, businesses may have concentrated their layoffs on men in order to more aggressively prune labor expenses, including benefits as well as wages.

The June employment report has obviously resonated in the political world as the data point towards an economy that has so far failed to meaningfully respond to the Government's support. Over the last few months, weak jobs data tended to avoid scrutiny in the nation's capitol as most observers felt that more time was required to determine the effectiveness of the various stimulus programs. With five months having past since these programs were introduced, and lacking hard evidence of a turnaround in the job markets, the political dynamics surrounding Government support for the economy are beginning to shift in a dramatic fashion. Over the weekend, Vice President Biden acknowledged that the Administration had underestimated the severity of the business cycle downturn. In addition, White House economic advisor Laura Tyson speculated on Tuesday that a second round of stimulus may in fact be necessary to restore momentum in the economy and especially for the labor markets. For sure, the economy will again become a dominant theme for elected officials as the year progresses, particularly if the employment backdrop remains soft. The mere discussion of additional stimulus is a major challenge for the President and the Democratic Party. To seek new support would be a tacit admission that the original programs that involved $787 billion in funding were poorly designed, which could reduce confidence regarding the ability of another round of stimulus to effectuate a turnaround. Moreover, the request for another program would seemingly justify the initial criticism that a huge package would only ramp up deficit spending and would have little impact on the economy. Of course, should the political rhetoric heat-up over the summer regarding the need for more stimulus, the reaction within the Treasury securities market will be critical in determining the outcome of that debate. Should interest rates spike well above present levels in anticipation of a second round of Government support that would mandate an even larger volume of new issue supply, the message from the marketplace would be loud and clear: no more stimulus! ■

William V. Sullivan, Jr.
Chief Economist
JVB Financial Group
July 7, 2009

For Broker Dealer, Institutional, and Advisor Use Only
Not to be distributed to individual investors

This document has been furnished to you solely for your information and may not be reproduced in any manner or provided to any other person. The information contained herein is based on sources that we believe to be reliable, but we do not represent that it is accurate or complete. Nothing contained herein should be considered as an offer to sell or a solicitation of an offer to buy any financial instruments discussed herein. All references to prices and yields are subject to change without notice. Any opinions expressed herein are solely those of the author. As such, they may differ in material respects from those of, or expressed or published by or on behalf of JVB Financial Group, LLC or its officers, directors, employees or affiliates.