Weekly Economic Commentary



November 11, 2013

John Canally, CFA

Economist LPL Financial

Highlights

The labor market has improved over the past three-and-a-half years, but it has not returned to "normal," where normal is defined as mid-to-late 2007, just prior to the onset of the 2007–09 Great Recession.

The BLS's October 2013 Employment Situation report has done little to convince some members of the public, market participants, and policymakers that the labor market is improving.

As the healing process continues, markets will continue to monitor the daily, weekly, and monthly flow of data on the labor market. However, your "employment situation" will remain the best gauge of the health of the labor market as 2013 draws to a close.

Please see our Weekly Economic Commentary from November 4, 2013 for further reading about the monthly Employment Situation report.

Labor Market: On the Mend, but Not "Back to Normal"

The October 2013 Employment Situation report—delayed one week due to the 16-day federal government shutdown—was released on Friday, November 8, 2013. The monthly Employment Situation report is two reports in one. The establishment survey produces the nonfarm payroll job count, while the household survey generates the unemployment rate data. Of the two surveys, our view—shared by the consensus of economists—had been that the household survey was more likely to see major distortions than the establishment survey as a result of the federal government shutdown. In general, that view turned out to be correct, as the establishment survey was relatively free of any anomalies, while the household survey contained several elements that were clearly impacted by the shutdown. Still, the report likely did little to convince some members of the public, market participants, pundits, politicians, or policymakers that the labor market was improving.

Establishment Survey: Minimal Impact From Shutdown

The October 2013 Employment Situation report showed that the economy created 204,000 net new jobs in October—well above the 120,000 expected by most economists—and that the unemployment rate rose just 0.1% to 7.3%, in line with market expectations. The consensus economist forecast was influenced by concern over the impact from the 16-day government shutdown, and that federal government workers furloughed due to the government shutdown would be counted as unemployed, even though their unemployment was temporary and they were going to be paid for their time away from work.

In discussing the October 2013 Employment Situation report in the press release accompanying the data, the Bureau of Labor Statistics (BLS)—the federal government agency that produces the report—noted that "there were no discernible impacts of the partial federal government shutdown on the estimates of employment, hours, and earnings from the establishment survey." This suggests that if there were any indirect impact on hiring in the private sector due to the uncertainty created by the shutdown, it was more than offset by a relatively robust hiring environment elsewhere. Indeed, not only did the nonfarm job count exceed expectations in October, the readings in August and September were revised higher by a total of 60,000. As we and most market participants expected, furloughed federal workers were counted as employed in October 2013. On balance, financial markets



1 The Federal Government Shutdown Helped to Push the Unemployment Rate Up by 0.1% to 7.3% in October 2013



Source: Bureau of Labor Statistics, Haver Analytics 11/11/13

Shaded area indicates recession.

viewed the report as good news for the economy, as equity prices rose and prices on Treasury notes and bonds fell—pushing the yield on the 10-year Treasury to the highest level (2.75%) in three weeks.

Household Survey: Unemployment Rate Higher, but Data Impacted by the Shutdown

On the household survey side, the BLS noted several times in the press release accompanying the October 2013 data that the rise in the unemployment rate from 7.2% to 7.3%, the 720,000 drop in the labor force, and the 735,000 drop in the household survey's measure of employment were due to the treatment of the furloughed federal workers who were classified as "unemployed on temporary layoff." As a result, markets largely ignored the household side of the survey in October and focused on the relatively robust establishment survey instead.

Another concern we had about the October 2013 Employment Situation report was the quality of the data and the timing of the collection process itself. The BLS addressed this concern, noting in its report that "the response rate for the household survey was within its normal range, and the response rate for the establishment survey was above average." This suggests that the data collection process and revisions to the October 2013 data in the coming months should largely adhere to their historical patterns. We will continue to closely monitor this report in the coming months as we gauge the pace of economic growth, the health of the labor market, and the Federal Reserve's (Fed) likely response.

Your "Employment Situation:" A Personal Matter

Despite the assurances from the BLS that the October 2013 Employment Situation report—and especially the surprising 204,000 gain in payroll

LPL Financial Member FINRA/SIPC Page 2 of 5

participants, pundits, policymakers, and politicians remain skeptical of not only the October 2013 jobs report, but of any of the myriad of government-produced reports on the labor market that show the labor market improving. After all, the true health of the labor market is a very personal one. For example, if you or someone you know is still out of work, or back at work but underemployed, or working less hours, or forced to work two or more jobs to make ends meet, etc., then the labor market you see, your "employment situation," has not improved.

employment—was free of distortions, many members of the public, market

Since the labor market bottomed out in early 2010, roughly 7 million net new jobs have been added to the economy, while the unemployment rate has dropped from a high of 10.0% to 7.3% today.

Since the labor market bottomed out in early 2010, roughly 7 million net new jobs have been added to the economy, while the unemployment rate has dropped from a high of 10.0% to 7.3% today (as of October 2013). Neither of those figures is "back to normal," where "normal" is defined by where the labor market was in late 2007, just prior to the onset of the Great Recession in December 2007, and that fact helps to fuel the concern that the labor market is not healing. Specifically, there are 136.5 million jobs in the economy as of October 2013, 1.6 million fewer than at the peak of employment in January 2008, when 138.1 million people were employed. Similarly, the unemployment rate today (7.3% in October 2013) is still well above the pre-Great Recession low of 4.4% last seen in May 2007.

"Back to Normal?"

As we noted in last week's *Weekly Economic Commentary, Jobs: Far From "Back to Normal,"* aside from the aforementioned nonfarm payroll job count and unemployment rate, there are a myriad of other metrics to measure the health of the labor market, and the private sector reports and collects all but a few of these. Although not all are available through October 2013, virtually every one of these indices tells the same story:

The labor market has improved over the past three-and-a-half years, but has not returned to "normal."

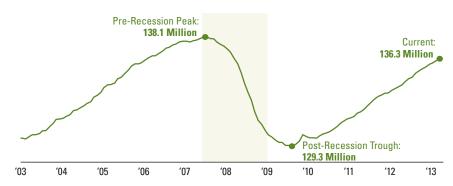
The nearby infographic helps to illustrate the point. The chart at the top shows the number of employees on nonfarm payrolls over the last 10 years. This measure of employment peaked in late 2007, bottomed out in mid-2010, and has been moving higher since then, but is not yet back to the 2007 peak, or what many regard as "normal." Below that chart, we provide a stylized look at nine other measures of the labor market, over that same 10-year time period: 2003 through 2013. Eight of the nine metrics are compiled and reported by the private sector. The ninth, the Job Openings and Labor Turnover Survey (JOLTS) data, are collected and reported by the BLS.

The bottom line is that all nine of these metrics are telling the same story as the nonfarm payroll job count and the unemployment rate. For ease of use, we chose just nine of these metrics, but at least a dozen others tell the same story: The labor market peaked in 2006 or 2007, bottomed out in 2009 and 2010, and has been in recovery mode since then. Just like the nonfarm payroll job and the unemployment rate, none of the nine metrics on the infographic are "back to normal," but all nine have improved (to

LPL Financial Member FINRA/SIPC Page 3 of 5

The Labor Market Is on the Mend, but Not "Back to Normal"

All Employees: Total Nonfarm



The peak/trough/current pattern exhibited by various measures of the health of the labor market are all telling the same story:



Just like the nonfarm payroll job and the unemployment rate, none of the nine metrics are "back to normal," but all nine have improved (to varying degrees) from their worst readings in 2009 and 2010.

Source: BLS, Haver Analytics, NFIB, ADP, Moody's Analytics, Manpower, American Staffing Association, Rasmussen Reports, Inc., Intuit, SHRM/RUT 11/04/13

Shaded area indicates recession.

Note: The time frame for all charts is the last 10 years, i.e., 2003-13.

varying degrees) from their worst readings in 2009 and 2010. So, while some investors do not trust the data on the labor market provided by the government (or even the private sector), it is pretty clear that the labor market is on the mend. But, as we note often in these pages, the labor market remains a long way from being "back to normal." Given the improvement in the equity markets and other financial markets since 2009, the financial markets clearly agree with the data in the infographic. Whether you agree or not may depend on your personal "employment situation," which may differ.

LPL Financial Member FINRA/SIPC Page 4 of 5

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The Bureau of Labor Statistics is a government agency that produces economic data that reflects the state of the U.S. economy. This data includes the Consumer Price Index, the unemployment rate and the Producer Price Index

This research material has been prepared by LPL Financial.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

Not FDIC/NCUA Insured | Not Bank/Credit Union Guaranteed | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit

