

# FXDD Reports: The US Unemployment Report for August 2008

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## 8:30 AM EDT, US Unemployment Report for the month of August

### Estimates:

**Unemployment Rate:** 5.7% versus 5.7% last month

#### Non-Farm Payroll,

Est. -75,000 versus -51,000 last month.

Manufacturing Estimate: -35,000 versus -35,000 last month

ADP came in at -33,000 for August.

Initial Claims 4-week moving average went from 393,000 to 440,250 from July 25 to August 22nd.

Continuing Claims 4-week moving average went from 3,198,000 to 3,400,000

#### US Manufacturing Jobs: -30,000 versus -26,000 last month

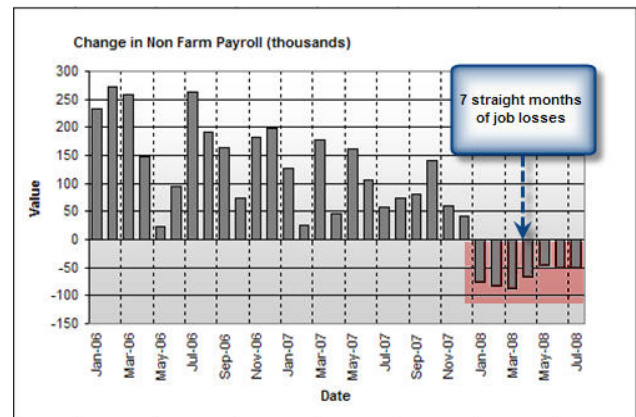
ISM Manufacturing Employment component came in at 49.7 versus 51.9 last month.

ISM Non- Manufacturing Employment component came in at 45.4 versus 47.1 last month

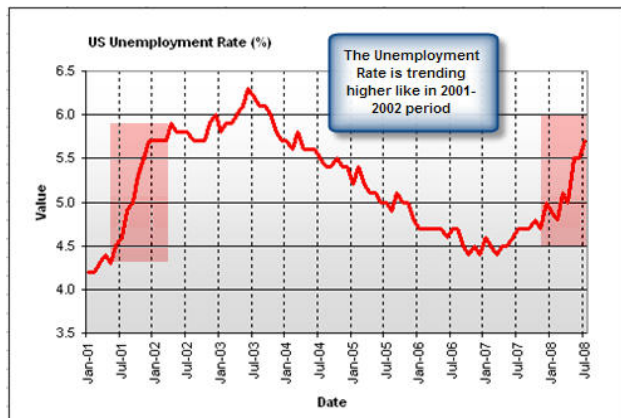
**Average Hourly Earnings:** +0.3% versus +0.3% last month. Year on Year:+3.4% versus +3.4%

### Introduction:

The August **US Unemployment Report** is due for release tomorrow at 8:30 AM EDT. Last month the figures showed continued weakness as **51,000 non farm payroll jobs were lost**. This was the 7<sup>th</sup> straight decline in jobs. During the period the average monthly job loss has come in at minus 66,000 and a total of 463,000 jobs have been lost. This month the expectation for NFP is for a decline of 70,000 - near the of average number jobs lost.



### The Unemployment Rate remains a concern



In May the **Unemployment Rate** shot up from 5.0% to 5.5%. Since then the rate has not has another growth spurt like that seen in May.

However, the **Unemployment Rate** tends to rise consistently once it gets going. The cycle tends to happen as earnings are squeezed. Companies, in a final effort to keep profits from falling sharply, are finally forced to cut workers. The goal is to increase efficiency by keeping costs as low as possible while the storm is weathered.

Yesterday, the Non-Farm Productivity increased by a greater than expected 4.3% for the 2<sup>nd</sup> quarter. This increase in productivity is occurring while producer prices have been rising sharply. Employers are reducing staff and making the existing staff more efficient.

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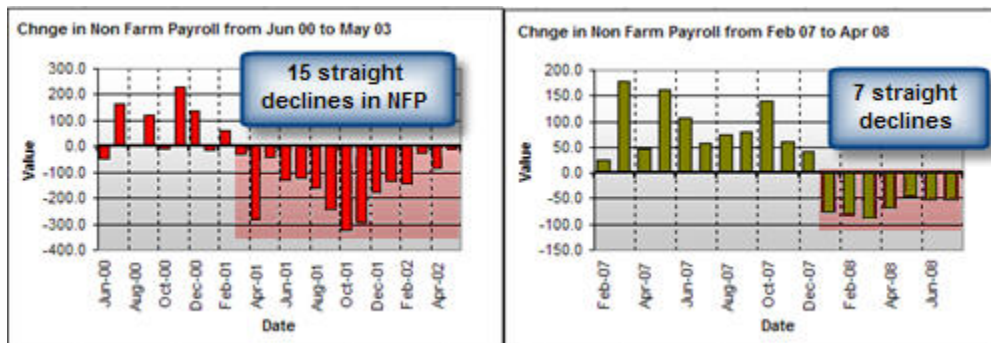
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The Initial Claims data seems to support this theory. Since the last Unemployment report, the Initial Claims for unemployment have risen to a new higher level. The 4-week moving average of the Initial Claims rose to a high of 446,250 in the week of August 15th. This was up from a low average of 378,000 in the week of July 11<sup>th</sup> – a 68,000 change from low to high. The sharp increase was similar to the increase seen in September/October period in 2001. Over a 6 week period at that time, the 4 week moving average rose sharply from 400,000 to 480,750 – an 80,750 change.

In 2001 when the spike occurred, the Unemployment Rate rose from 5.0% in September to 5.3% in October. The next two months saw the rate rise even further to 5.5%, then 5.7% - a change from start to finish of 0.7%.

Are we in store for a similar change in the current unemployment rate? It would seem that the data supports an increase. The Fed has also indicated that they anticipate higher unemployment going forward (rising toward 6.0%). I would not be surprised to see a move toward a higher level tomorrow.

## Non Farm Payroll Should Decline once Again



In the 2001-2002 time period when the US was entering a recession, the Non Farm Payroll declined for 15 consecutive months. During that time period, the average jobs lost was minus 146,000 jobs per month. The current employment slowdown has encompassed seven months with an average

job loss of 66,000 jobs per month (see chart above)..

Most analysts, to date, do not expect that the job losses this cycle would accelerate to the level seen in the 2001/2003 period. Indeed, during that time, there were months when the NFP fell by over 300,000 jobs. The tech bubble where a large number of jobs were first created, then lost, along with 9/11 terrorist attack, made the fall in employment quite abrupt during that economic period.

The current downturn has the collapse of the housing bubble, the resulting credit crisis and a sharp rise in inflation to blame for its woes. On the positive side, the export market has been robust as a result of a weakening dollar.

The housing crisis has been with us now for over a year and contributed to unemployment almost immediately. The credit crisis started in earnest last September and contributed to unemployment in that sector. The inflation spike, although developing for a number of months, has been ignored by businesses as it was thought to be a temporary problem. As time has gone on, however, and producer price pressures on profits have mounted, the effects of higher inflation, temporary or otherwise, seems to have now kicked in. As a result, this next phase of the unemployment cycle seems to be developing.

Of course, steps have already been made by the FOMC to ease the pain via lower interest rates. In addition, over the last month and a half, and energy and commodity prices have come off their highs as well. However, the sharp spike in inflation has left wounds that will take time to heal and the aftershocks of housing and the credit crisis are not exactly gone either. As a result, businesses will not be in a hurry to hire back workers and may be more inclined to continue shedding jobs as growth slows in the months ahead.

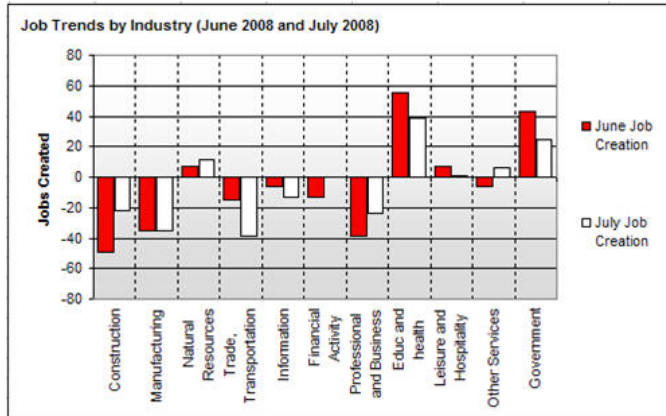
It is hard to stop even a slow moving ship once it develops a momentum. The ship is moving. .

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## A Breakdown of the Job Trends by Industry Sector



The **Labor Department** gives a breakdown of the different employment sectors and the change in jobs in each. Last month the **Trade and Transportation** led the declines. **Manufacturing** also had large job losses.

**Manufacturing** continued its downtrend in job losses, despite the increases in US exports. While **Construction** rebounded from the prior month, but still showed job losses.

On the plus side, the **Education and Health** component once again led the job growth sectors. **Government** and **Other Services** also added jobs.

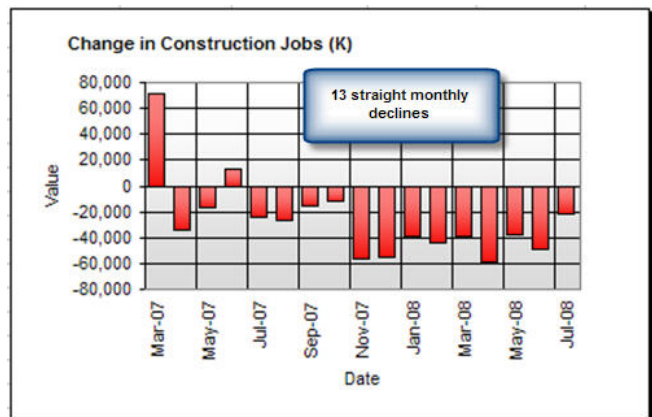
The breakdowns of the different sectors are outlined below along with the expected influence with regard to

jobs created or subtracted.

## Construction's been Negative for 11 Straight Months

Taking a closer look at the components that make up the NFP release, **Construction** rebounded last month to -22,000 jobs after losing -49,000 jobs the month before. It has now declined for 13 straight months. The supply of new homes on the market is down from the peak of 11 plus months, but at 10.0 months is still nearly twice a normal market. As a result, adding construction jobs is not likely.

### EXPECT ANOTHER MONTH OF JOB LOSSES

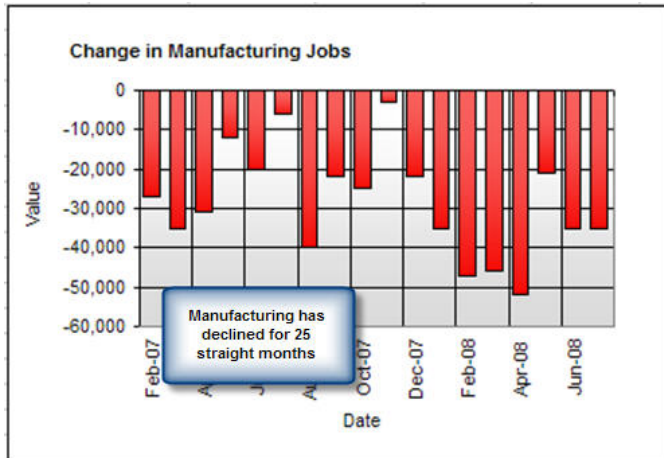


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## Manufacturing Continues to Suffer Even with a Weaker Dollar



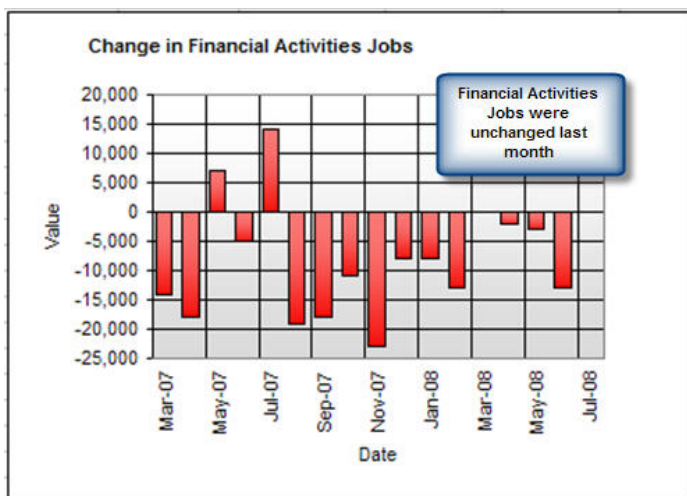
**Manufacturing** lost -35,000 jobs last month and in the process, recorded the 25th consecutive month of job losses for the sector. Even with increased sales overseas due to the declining dollar (which has now started to reverse), the manufacturing sector continues to show weakness led by the Big 3 auto makers who continue to be in an automobile recession despite the uptick in sales announced on Wednesday (heavy discounting helped). The August Manufacturing ISM index came in at 49.9 virtually unchanged from the previous month, and the Employment component fell to 49.7 from 51.9 last month.

Last month the loss of jobs in Manufacturing was unchanged from the previous month at -35,000 jobs. With the dollar rallying (making exports more expensive abroad), inflation cutting into manufacturers profit

margins and slower growth expected ahead, the manufacturing sector is also **not** likely to hire more workers. In fact, I would expect companies to continue to look for areas where there is extra employment fat in anticipation of slower growth ahead.

**EXPECT the 26<sup>th</sup> consecutive job loss for Manufacturing.**

## Financial job growth has been flat or down for year now?



The **Financial Activities** were unchanged from the June last month after losing 13,000 jobs the previous month. The sector has not added any jobs in any of the last 12 months as the financial crisis continues unabated.

However, problems, especially big ones, still take people to fix them. When there are more consolidations the declines may happen more quickly. I would not expect large declines for this sector but there is no reason to think there would be any gains either.

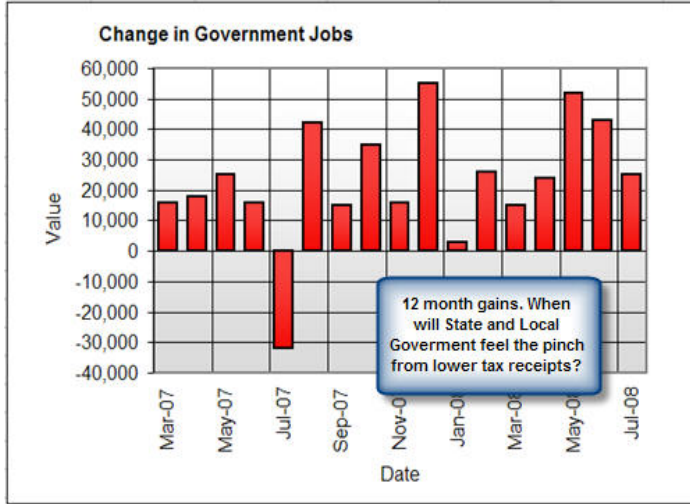
**EXPECT JOB LOSSES**

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## The Economy needs fiscal job growth, but when declining tax receipts hurt local and state government?

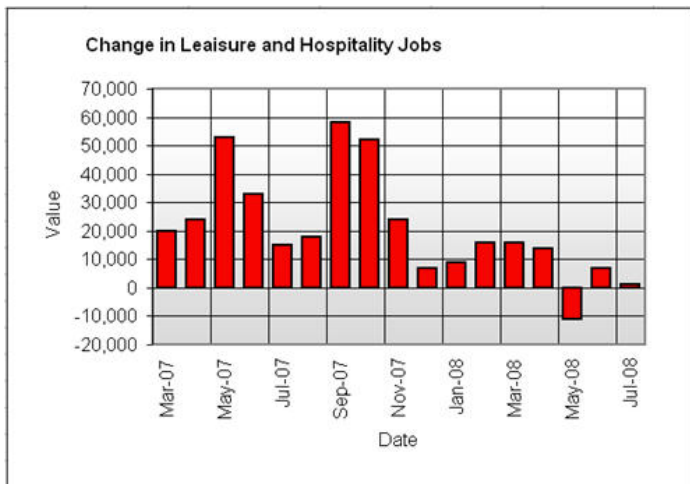


**Government** added 25,000 jobs last month and has added jobs every month for the last 12 months. The average over that period has been 29,250 jobs/month. Most of Government jobs are created at the local level, with average gain per month over the last year of 20,000 jobs. For the state level the average has been 5,000. The Federal Government has added only 1,000 jobs per month. The question is “Can local government continue to add 20,000 jobs if tax receipts are down?”

Eventually, that problem will need For this month, however, teachers return back to school. Last year there was a gain of 44,000 jobs in August with 34,000 being in local education. As a result, expect another good gain. The loss in local jobs will most likely come from other areas.

**EXPECT JOB GAINS.**

## Leisure and Hospitality should start to show weakness



**Leisure and Hospitality** showed an increase of 1,000 jobs last month. The last three months have resulted in 3,000 jobs **lost** as slower growth and higher gas prices kept people closer to home during the summer season. As a result, the traditional summer hiring never took place. As a guide, in 2007, a total of 101,000 jobs were created in May, June and July.

If there were no hires in May, June and July I do not think we will see much growth in August as well.

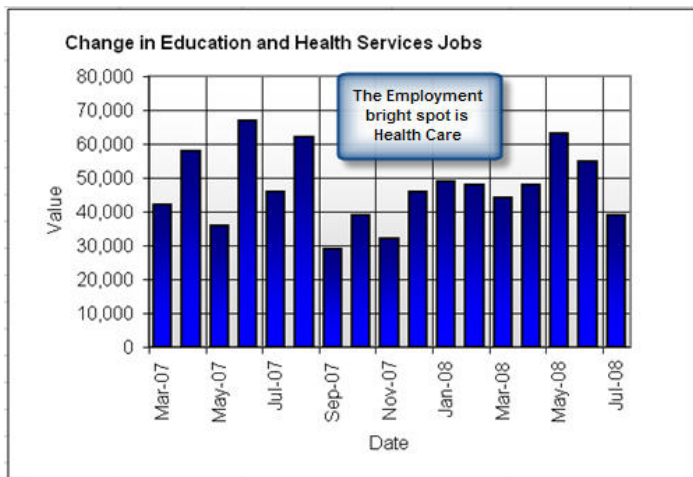
**EXPECT SMALL GAIN OR SMALL LOSS.**

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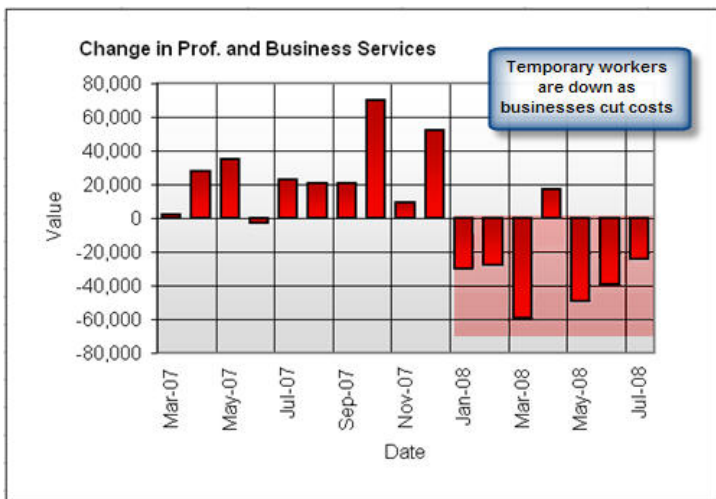
## Aging Baby Boomers Keep Health Service Jobs Strong



The **Health Care** sector is the one sector where the aging baby boomers will keep the job hires strong. Nevertheless, this sector added 39,000 jobs last month, the smallest amount since November 2007.

**EXPECT JOB GAINS**

## Professional and Business Services are a Wildcard



The **Professional and Business Services** has shown job losses for 6 of the last 7 months. Last month 24,000 jobs were lost. This sector includes accounting and legal, computer system design, management and technical consultants, administrative and support services and temporary help. Businesses have stopped hiring temporary workers which has been the main cause of the decline in this sector of late.

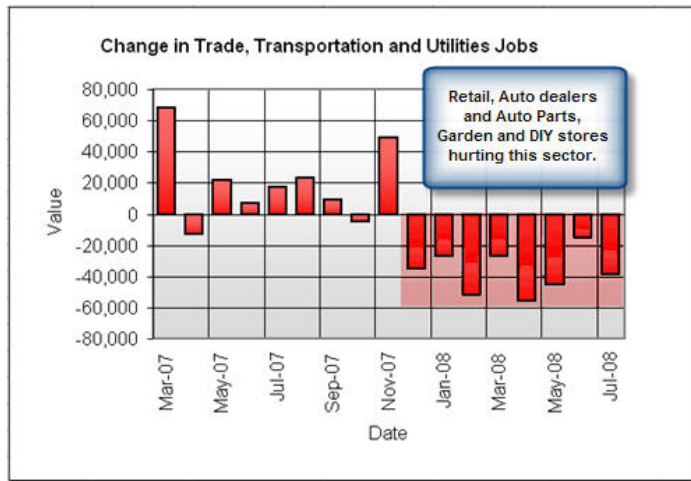
**EXPECT LOSS IN JOBS**

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## Trade, Transportation and Utility Jobs have lost jobs for 8 straight months

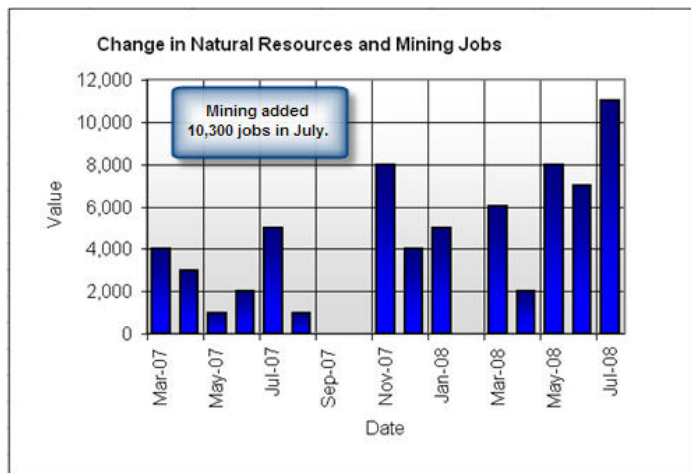


The **Trade Transportation and Utilities** sector includes Retail Trade from gasoline stations, to auto dealers, to general merchandise; Transportation from airlines to trucking and shipping; Wholesalers of Durable and non durable goods, and Utilities.

Last month the sector shed 39,000 jobs. This was the 8<sup>th</sup> month in a row jobs have been lost. This sector follows the economy and as a result, I would expect continued sluggishness

**EXPECT SMALL JOB LOSSES**

## Natural Resources and Mining Jobs have been adding jobs as the high price of commodities spurs on this sector



**Natural Resources and Mining** jobs and **Information** added 11,000 jobs last month. Of those 10,300 were in mining. The high price of natural resources have led to increased demand for mine workers to get the natural resources out and sold.

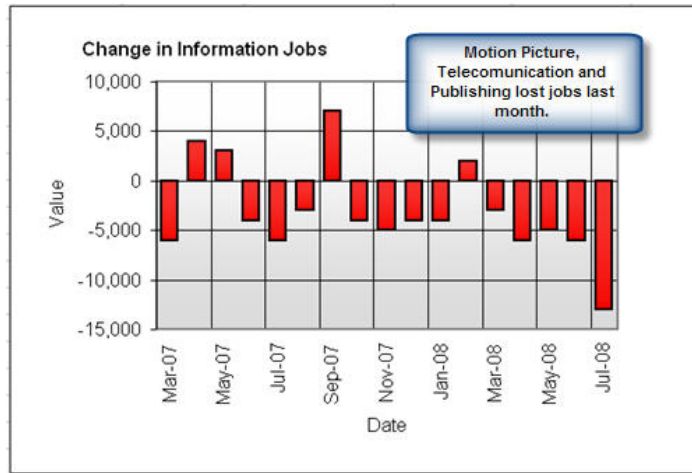
**EXPECT JOB GAINS**

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**Information Jobs have been another sector that has been losing jobs monthly**



The Information job sector which includes publishing, motion picture, broadcasting, telecommunications and internet publishing, has been shedding jobs every month. Last month, 13,000 jobs were lost which was the steepest fall in over a year and a half

**EXPECT SMALL JOB LOSS**

## **Summary:**

As always, no one ever expects the surprise announcement. However, of all the economic releases out of the United States, the employment report tends to have instances where it can be far outside the ranges.

**As a result, prepare for volatility and pare positions to levels that would congruent with the large increase in event risk.**

In analyzing the report after the release, the key component to look for will be the **Unemployment Rate**. If it goes higher, this should be bearish for the US economy and the dollar. If it backs off, the Employment picture is not in crisis mode.

Note that the dollar has been strong as expectation of slower growth abroad is the focus and much has been priced in the US dollar. As a result, be aware that a weaker number may find sellers at higher levels.

The NFP number can be influenced by many things. However, given the inflationary environment and the squeezing of company earnings, the risks **should** be for a more negative number. The weekly Initial Claims data support further weakness. In addition, the ISM data showed Employment to be contracting in both the Service and Manufacturing sector.

Thank you for your continued business, have a profitable day trading and a great weekend.

**- Greg Michalowski, Chief Foreign Exchange Analyst**