

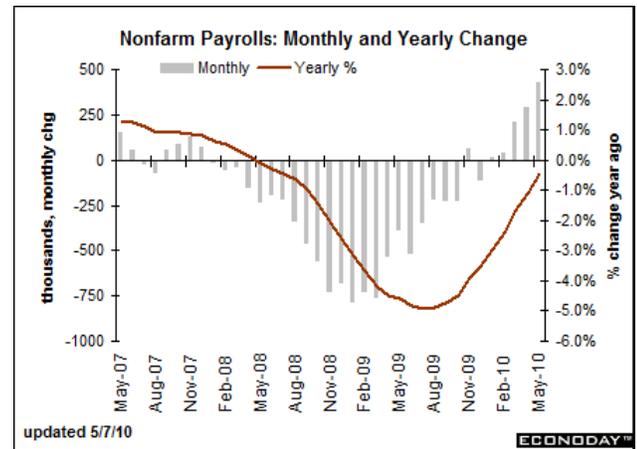
Economic Week In Review: Reading The Labor Market Tea Leaves

Vanguard 6/4 - The highly anticipated release of May's employment data was disappointing—even though the unemployment rate did fall. But optimists found encouraging signs for the labor market as manufacturing expanded, albeit at a slower pace, and productivity gains suggested that businesses will need to hire more workers. The service sector employment index crossed over into growth territory for the first time in more than two years. On Friday, investors became more anxious about fiscal problems in Europe and their implications for global growth. For the week ended June 4, the S&P 500 Index fell 2.3% to 1,065 (for a year-to-date total return—including price change plus dividends—of about -3.7%). The yield of the 10-year U.S. Treasury note fell 11 basis points to 3.20% (for a year-to-date decrease of 65 basis points).

Non-Farm Payrolls (May): Lower Unemployment Rate Brings Little Cheer

Vanguard 6/4 - The Labor Department reported a slight improvement in the national unemployment rate, which returned to 9.7% in May—the same as the first-quarter average—after edging up to 9.9% in April. However, job creation in the private sector was weaker than anticipated, with only 41,000 payroll jobs added in May. Total nonfarm employment was up by 431,000, but this included 411,000 temporary census workers. Improvement in the unemployment rate itself came from workers leaving the labor market.

Vanguard economist Roger Aliaga-Díaz observed, "We're still seeing discouraged workers giving up on their job searches and leaving the labor force, despite an extension of unemployment benefits that would normally be an incentive to keep them actively looking for jobs. The likely explanation for this, so late in the game, is the worsening long-term unemployment problem. The average period of unemployment now exceeds 34 weeks, the highest of any recession since World War II."



Econoday 6/4 - Overall payroll jobs in May surged 431,000, following a 290,000 boost in April, and 208,000 gain in March. May's spike came in much lower than the consensus forecast for a 540,000 jump. Net combined revisions for April and March were down 22,000. The positive news in the payroll survey was in earnings and the workweek. Wage inflation picked up with a 0.3 % rise in May, following a 0.1 % advance the month before. The average workweek for all workers edged up to 34.2 hours from 34.1 hours in April. Analysts had expected 34.1 hours. From the household survey, the unemployment rate slipped to 9.7 % from 9.9 % in April, coming in below the market forecast for 9.8 %.

Briefing.com 6/4 - Further, out of the 41,000 new hires, 31,000 new jobs were deemed temporary. If consumer demand suddenly decelerates, these hires will lose their jobs quickly...manufacturing payrolls increased by 29,000, its fifth consecutive monthly increase. The data confirm that the expansion in the manufacturing sector has not been impeded. The reason for the drop in the unemployment rate was due to workers again leaving the labor market in droves. The labor force declined by 322,000 for the month, its first monthly decline since December 2009. However, government hires exceeded expectations by 115,000.

Broader Unemployment Rate Drops to 16.6%

WSJ (Excerpts) 6/4 - The U.S. jobless rate dropped to 9.7% in May, erasing the increase recorded in April and returning to the same level it was at for the first three months of the year, but the government's broader measure of unemployment dropped even further to its lowest level since January at 16.6%.

The comprehensive gauge of labor underutilization, known as the "U-6" for its data classification by the Labor Department, accounts for people who have stopped looking for work or who can't find full-time jobs. Both the headline and U-6 rates are based on the number of people in the labor force. When the unemployed drop out of the labor force completely the jobless rate declines. This month, despite a 170,000 increase in the population, the number of people in the labor force dropped by 322,000.

The 9.7% unemployment rate is calculated based on people who are without jobs, who are available to work and who have actively sought work in the prior four weeks. The U-6 figure includes everyone in the official rate plus "marginally attached workers" — those who are neither working nor looking for work, but say they want a

Market Comment *Economic Highlights for the week ended June 4, 2010*

job and have looked for work recently; and people who are employed part-time for economic reasons, meaning they want full-time work but took a part-time schedule instead because that's all they could find.

Employment-related: State and Local Government Still Firing

Wall Street Journal 6/4 - While federal employment surged last month, the ailing state and local government sector continues to be a weak spot in the recovery. The state and local government sectors shed a combined 22,000 jobs last month, the largest drop since February. State and local government are down 231,000 jobs from their peak employment in August 2008, with losses in 15 of 21 months.

ISM Manufacturing Index – May

Vanguard 6/4 - The economy's manufacturing engine may have lost a little steam in May, but it performed better than expected and is still driving the recovery. The Institute for Supply Management's (ISM) manufacturing index registered 59.7 in May, beating expectations. An index value above 50 for this survey of purchasing managers indicates that the manufacturing sector is generally expanding. May's level was close behind April's 60.4 and in line with the levels for February and March.

Most indicators were positive. New orders, at 65.7, were just below January's near-term peak and inventories fell to 45.6 from 49.4; the widening gap between new orders and inventories may point to increased future output. The employment index improved to 59.8, suggesting more hiring to keep pace with product demand. And, so far, the relative strength of the U.S. dollar and weakness in European economies has not been reflected in the export index. Mr. Aliaga-Díaz noted, "Exports to Europe represent only a very small percentage of the U.S. economy, and demand from European importers is not likely to be cut back completely. In addition, the relative weakness of the euro may help to sustain levels of economic activity in Europe."

Econoday 6/1 - Robust month-to-month growth for new orders and employment highlight another very strong ISM manufacturing report. Employment index was last above 60 back in May in 2004. May's reading came in at 59.8 for a 1.3 point gain to indicate significant acceleration in hiring.

ISM Service Sector Index - May

Vanguard 6/4 - The ISM index of service sector activity in May remained at 55.4 for the third consecutive month. A result above 50 indicates expansion, as it does for the counterpart manufacturing index. The service sector's somewhat lower level, compared with that of the manufacturing index, is consistent with the fact that consumers have not been leading the current recovery. After 28 consecutive months in the "contraction" zone, the employment index climbed to 50.4, signaling growth.

Barclays 6/3 - Although the headline came in slightly below expectations, this is a positive report, which shows continued growth in the service sector.

Factory Orders Mixed - April

Vanguard 6/4 - Overall, new orders for manufactured goods reported by the Commerce Department were consistent with the ISM's on-the-ground survey of purchasing managers. April orders rose 1.2%, compared with 1.7% in March. However, excluding transportation, total orders slipped 0.5%. Orders for commercial aircraft, a sizable component of the transport sector, can be quite volatile: As noted in last week's durable goods report, new orders for commercial planes soared 228% in April after falling 71% in March. This week's factory orders report encompasses all manufactured goods, not just long-lived durable items. Although nondurables' orders slipped 0.1%, analysts were not concerned because the decrease largely reflected lower crude oil prices

1Q2010 Productivity: Downward Revision To Productivity, But Still Strong

Vanguard 6/4 - The Labor Department's second take on nonfarm business productivity in the first quarter yielded a larger-than-expected revision from the 3.6% growth reported last month: Output per hour grew at an annual rate of 2.8%. Compared with the first quarter of 2009, productivity increased 6.1%, the largest year-over-year increase since 2002. Productivity often improves as recessions end. To meet rising demand, firms are able to increase output faster than they increase the workforce, but productivity growth tends to slow as the number of hours worked also increases (because productivity is the ratio of output divided by hours worked). Eventually, more workers need to be hired, a hopeful sign for the labor market.

Unit labor costs in the first quarter fell 1.3%, reflecting ongoing softness and suggesting that inflation is not a concern.

Market Comment *Economic Highlights for the week ended June 4, 2010*

Construction Spending: Building Pace Quickens - April

Vanguard 6/4 - Construction spending rose 2.7% in April, the highest monthly percentage jump in almost a decade. However, at an annual rate of \$869 billion, spending is still almost 11% below year-ago levels. All three major spending components advanced for the month, led by a 4.4% increase in private residential construction—in part supported by federal homebuyer tax credits. Private nonresidential construction increased 1.7%. Federal stimulus funds helped pave the way for a 2.4% increase in overall public spending, boosted by a 3.6% increase in highway and street construction, the largest component.

Econoday 6/1 - Expiring special tax credits for homebuyers and the recent surge in home sales have carried over to unexpected strength in construction activity. On a year-ago basis, overall construction outlays rose to minus 10.5 % in April from minus 12.5 % in March. Apparently, the surge in home sales in recent months has cut into new home inventories enough to give homebuilders enough confidence to bump up the pace of new construction. However, gains are coming off low levels.

Barclays 6/1 - This number likely reflects government housing incentives in place through April in large part, but underscores an improvement in the housing market more generally too.



Unemployment Insurance Weekly Claims Report (Initial Jobless Claims)

Press Release 6/3 - In the week ending May 29, the advance figure for seasonally adjusted initial claims was 453,000, a decrease of 10,000 from the previous week's revised figure of 463,000. The 4-week moving average was 459,000, an increase of 1,750 from the previous week's revised average of 457,250.

The advance seasonally adjusted insured unemployment rate was 3.6 % for the week ending May 22, unchanged from the prior week's unrevised rate of 3.6 %.

WEEK ENDING	May 29	May 22	Change	May 15	Prior Year
Initial Claims (SA)	453,000	463,000	-10,000	474,000	616,000
4-Wk Moving Average (SA)	459,000	457,250	+1,750	454,250	619,250

Econoday 6/3 - Unemployment claims continue to come in at a steady rate and indicate no improvement in the labor market. The four-week average, at 4.654 million, has been almost motionless since late March.

The Economic Week Ahead: June 7 – June 11

Vanguard 6/4 - Economic reports on tap for next week begin with consumer credit on Monday, the Federal Reserve's Beige Book report on economic conditions across the United States on Wednesday, international trade on Thursday, and retail sales and business inventories on Friday.

U.S. Economic Calendar

Source: briefing.com

Date	ET	Release	For	Consensus	Prior
Jun 07	15:00	Consumer Credit	April	-\$4.3B	\$2.0B
Jun 09	10:00	Wholesale Inventories	April	0.5%	0.4%
Jun 09	14:00	Fed's Beige Book	June		NA
Jun 10	08:30	Initial Claims for Unemployment Benefits	06/05	NA	NA
Jun 10	08:30	Trade Balance	April	-\$42.5B	-\$40.4B
Jun 10	14:00	Treasury Budget	May	\$145.3B	\$189.6B
Jun 11	08:30	Retail Sales	May	0.5%	0.4%
Jun 11	10:00	Business Inventories	April	0.4%	0.4%