Economic Week in Review: Job Gains Provide a (Contingent) Sigh Of Relief

Vanguard 10/7 – The latest economic reports suggest that the U.S. economy is on a knife's edge—growing enough at the moment to stave off recession, but not enough to make a dent in the unemployment rolls, which continue to cast a shadow on the longer-term outlook. The week's closely watched jobs figures illustrated the dilemma: The unemployment rate was unchanged in September at 9.1%, payroll job growth was substantially higher than expected, and previous months' payroll figures were restated upward. Good, but not good enough, say economists. Meanwhile, Ben Bernanke, chairman of the Federal Reserve Board, warned that the U.S. economic recovery was "close to faltering" and urged fiscal action from Congress and the White House. For the week ended October 7, the S&P 500 Index rose 2.1% to 1,155 (for a year-to-date total return of about –6.7%). The yield of the 10-year U.S. Treasury note increased 18 basis points to 2.10% (for a year-to-date decrease of 120 basis points).

September Non-Farm Payroll Job Growth Surprises

Vanguard 10/7 – The unemployment rate for September was unchanged at 9.1%, lower than expected. A lot of attention was paid to the accompanying nonfarm payroll figures: Employers added substantially more jobs than expected in September—103,000 compared with a forecast of 60,000. The return of striking Verizon workers boosted the job gains. At the same time, August and July results were substantially revised upward (from 0 to 57,000, and 85,000 to 127,000, respectively). Hiring in professional services, health care, and retail was offset by cuts in manufacturing, financial services, and the public sector, especially among public-school jobs. The job gains were a welcome relief to analysts, who fear the advent of another recession. But they also noted the fragility of the economic recovery, which has been holding back substantial job growth.

"The September payroll figures are better, but still not good enough because we need to add at least 150,000 jobs a month on a consistent basis for the unemployment rate to fall," said Roger Aliaga-Díaz, Vanguard senior economist. "Although labor force participation has increased strongly the last two months—at a higher rate than normal—that will have the effect of putting upward pressure on the jobless rate going forward."

AFP 10/10 - The U.S. economy added 103,000 jobs in September, but the number exaggerates the pace of job creation during the month as nearly half of the added jobs were people returning to work following the conclusion of a telecommunications strike. The Bureau of Labor Statistics estimated 45,000 of the net job additions were the result of strikers at Verizon returning to work during the month. The BLS also added 42,000 jobs to its previous estimate of July employment and now believes payrolls expanded by 57,000 workers in August rather than being unchanged as had been reported last month. After netting out the effect of the strike and the revisions, the data would seem to suggest that the labor market actually slowed in September despite the higher than expected headline number.

The private sector created a total of 137,000 jobs during the month, including 119,000 in the service sector. Professional and business services added 48,000 workers while health care payrolls grew by 44,000 workers. The goods producing sector added just 18,000 workers as the construction sector added 26,000 workers but manufacturers' payrolls contracted by 13,000. Government payrolls continued to shrink, falling by 34,000 in September.

The unemployment rate, based on a separate survey of households, remained at 9.1%. The rate has traded within a range of 8.8 and 9.2% for all of 2011. 6.24 million workers have been jobless for at least 27 weeks—representing 44.6% of all unemployed people—while the median length of unemployment was 22.2 weeks, it highest reading since May and 1.7 weeks higher than it was in September 2010. Of those working (140.03 million), 9.27 million held a part-time job but are seeking full-time employment. The broadest measure of labor underutilization, the U-6 series, increased by 3/10 ths of a percentage point to 16.5%.

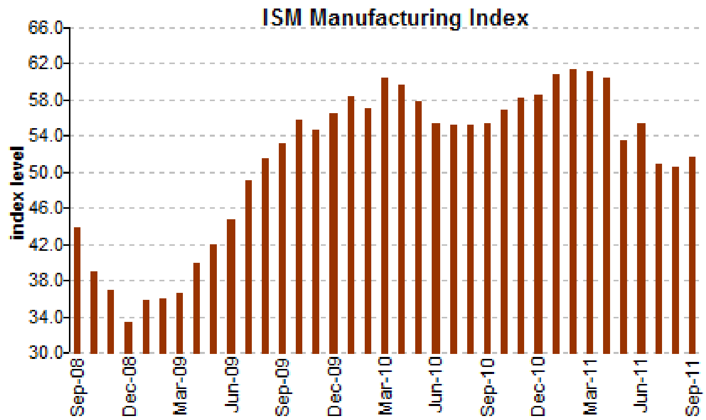
Econoday 10/7 – Job growth improved more than expected in September although the gain was held back by contraction in the government sector. Today's report indicates that the labor market is not quite as sluggish as earlier believed. Importantly, the services sector may be gaining mild momentum.

Barclays 10/7 - Overall, the employment report is reassuring and suggests that the labor market is showing durability in the face of the various risks on the horizon, such as the European debt crisis and possible fiscal tightening in the US.

ISM Manufacturing Index - September: Stabilization in Manufacturing Output

Econoday 10/3 – Employment picked up and production picked up, but orders in the manufacturing sector are flat at the very best, according to September data from the Institute For Supply Management (ISM) whose composite index came in at 51.6. The employment component rose two full points to 53.8 to indicate a tangible increase in hiring. This is in line with a tangible increase in production which rose more than 2-1/2 points to 51.2.

Now for the bad news in the report: New orders are under 50 for a third month in a row, though just barely at 49.6 in a reading that hints at fractional contraction in final demand. Manufacturers, waiting for new orders to pick up, have been chewing through back orders in recent months and continued to do so in September as backlog orders fell 4-1/2 points to a 41.5 level that indicates sizable contraction. One plus on the order side is a pick up in new export orders which rose two points to 53.5.



Barclays 10/3 - All in all, a positive report and one that suggests that the risks of a return to outright recession have eased.

ISM Non-Manufacturing – September: Activity and Employment Diverge

Barclays 10/5 - The non-manufacturing ISM index declined to 53.0 from 53.3 in September. The small move in the headline masked a divergence in the components, most notably between strong gains in business activity (to 57.1 from 55.6) and new orders (to 56.5 from 52.8) on the one hand, but a sizable decline in employment (to 48.7 from 51.6) on the other, the lowest reading since April 2010. Supplier deliveries, the last of the four equally weighted components, fell to 49.5 from 53.0. While this suggests that service sector employment remained weak in September, the strong gains in activity and new orders measures are an encouraging sign that output growth has turned more positive following the soft patch over the summer.

Construction Spending Rebounds (August)

Vanguard 10/7 – Construction activity grew 1.4% in August—an inversion of its 1.4% decline a month earlier and substantially higher than expected. Each of the three components of the private residential spending category rose; compared with a year earlier, however, spending on private residences was 3.5% lower, while spending on multifamily homes and home improvements was up 13.3% and 10.5%, respectively. Public construction posted an unexpectedly large gain, primarily because of spending on highways, streets, and education structures, but was 6.3% lower than a year ago.

Barclays 10/3 – U.S. construction spending increased 1.4% m/m in August. In general, the gains are reassuring after the weak July numbers.

Factory Orders - August

Econoday 10/4 – Factory orders fell 0.2% in August. Orders for durable goods, first released last week in the advance report, are unrevised at minus 0.1%. Orders for non-durable goods, the new data in today's report, fell 0.3% and reflect price declines for energy products.

Details of the report aren't that bad. August had a difficult comparison with July when orders, boosted by a surge in motor vehicles, jumped 2.1% (revised from plus 2.4%). Primary metals are a source of weakness in August but, like energy, reflect price declines. A strong positive in the month is a surge in capital goods where shipments of aircraft are ramping up.

Shipments, which ultimately track new orders, also fell 0.2%. The month's weakness again appears in primary metals and motor vehicles with capital goods again a source of strength. Backlog, at least up until August, has been a major source of strength for the manufacturing sector, up a strong 0.9% for a second straight month. The drop in shipments made for a slight inventory build with inventories up 0.4% and the inventory-to-shipment ratio up to 1.34 vs 1.33 in the prior two months.

The manufacturing sector may be a tale of two worlds with strength in capital goods, reflecting business demand for machinery vs. personnel, and weakness in consumer goods, the latter reflecting the weakness in the jobs market.

Consumer Credit Unexpectedly Declines (August)

Vanguard 10/7 – After 10 straight months of increases, consumer debt outstanding fell unexpectedly in August, suggesting consumers are becoming more cautious about borrowing. Both revolving and non-revolving debt declined for a total drop of $9.5 billion compared with a consensus forecast of an $8.0 billion increase. The figures are preliminary and are frequently revised, sometimes to a large extent.

Motor Vehicle Sales - September: Solid Rebound in U.S. Auto Sales

Econoday 10/3 – September auto sales proved strong vs. what was a soft August, up more than 8% to a 13.1 million annual unit rate. The gain is centered strongly in light trucks which have higher sticker prices and which strengthens the indication for a monthly gain in the motor vehicle component of the retail sales report. But one factor trimming the dollar total is the higher level of manufacturer incentives which drove September sales.

AFP 10/10 - Vehicle sales were up 10.8% year-to-year, including a 18.4% jump in light truck sales.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Oct 1

Press Release 10/6 (excerpts) - In the week ending October 1, the advance figure for seasonally adjusted **initial claims** was 401,000, an increase of 6,000 from the previous week. The 4-week moving average was 414,000, a decrease of 4,000.

The advance seasonally adjusted **insured unemployment rate** was 2.9% for the week ending September 24, a decrease of 0.1 percentage point from the prior week's unrevised rate.

The advance number for seasonally adjusted **insured unemployment** during the week ending September 24 was 3,700,000, a decrease of 52,000 from the preceding week. The 4-week moving average was 3,739,000, a decrease of 9,750.

WEEK ENDING	Oct 1	Sept 24	Change	Sept 17	Prior Year
Initial Claims (SA)	401,000	395,000	+6,000	428,000	449,000
4-Wk Moving Average (SA)	414,000	418,000	-4,000	422,250	453,000

Barclays 10/6 - The labor department reported no special factors affecting the numbers. We interpret this as a fairly encouraging report, given that the sharp drop in initial claims during the previous week was only partly reversed. Initial claims appear to have returned to levels seen during July, having risen quite markedly during August and September, consistent with our broader view that those months represented a soft patch for the US economy, rather than the initial stages of a return to recession.

Wholesale Inventories – August

Econoday 10/7 – Wholesalers are closely managing their inventories which rose only 0.4% in August relative to a 1.0% rise in sales at the wholesale level. Up sharply in the month were inventories of autos excluding which wholesale inventories were unchanged. Electrical goods and metals also showed big monthly builds with furniture, paper, and petroleum products showing large draws.

The Economic Week Ahead: Oct 10– Oct 14, 2010

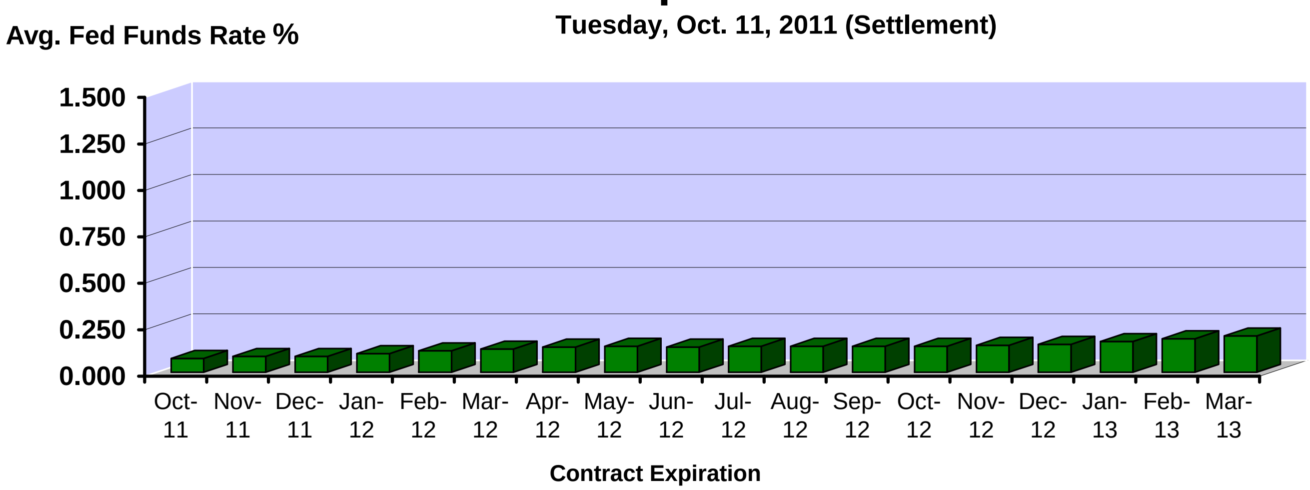
Vanguard 10/7- Potential insights into Federal Reserve thinking may come from release of the minutes of the latest meeting of the Federal Open Market Committee on Wednesday. Other reports scheduled for release include international trade (Thursday) and retail sales and business inventories (Friday).

This Week's U.S. Economic Calendar *Source: MarketWatch*

	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, OCT. 10		Columbus Day Holiday None scheduled			
TUESDAY, OCT. 11	7:30 am	NFIB Small Business Index	September	--	88.1
	2 pm	Federal Budget	September	--	-$35 billion
WEDNESDAY, OCT.12	10 am	Job Openings	August	--	3.23 million
	2 pm	**FOMC minutes**	9/23		
THURSDAY, OCT. 13	8:30 am	Initial Jobless Claims	10/8	405,000	401,000
	8:30 am	**Trade Deficit**	August	-$45.4 bln	-$44.8 billion
FRIDAY, OCT. 14	8:30 am	**Retail Sales**	September	0.6%	0.0%
	8:30 am	Retail Sales Ex-Autos	September	0.3%	0.1%
	8:30 am	Import Price Index	September	-0.3%	-0.4%
	9:55 am	Consumer Sentiment	October	59.9	59.4
	10 am	Inventories	August	0.5%	0.4%

Futures-Implied Fed Funds Rate

Tuesday, Oct. 11, 2011 (Settlement)



	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12
Rate %	0.075	0.085	0.085	0.100	0.115	0.125	0.135	0.140	0.135	0.140
FOMC MEETINGS:		11/2	12/13	1/25		3/13	4/25		6/20	7/31