Payden&Rygel

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

SEPTEMBER 7, 2012

"Essentially Unchanged" Labor Market Conditions in the US

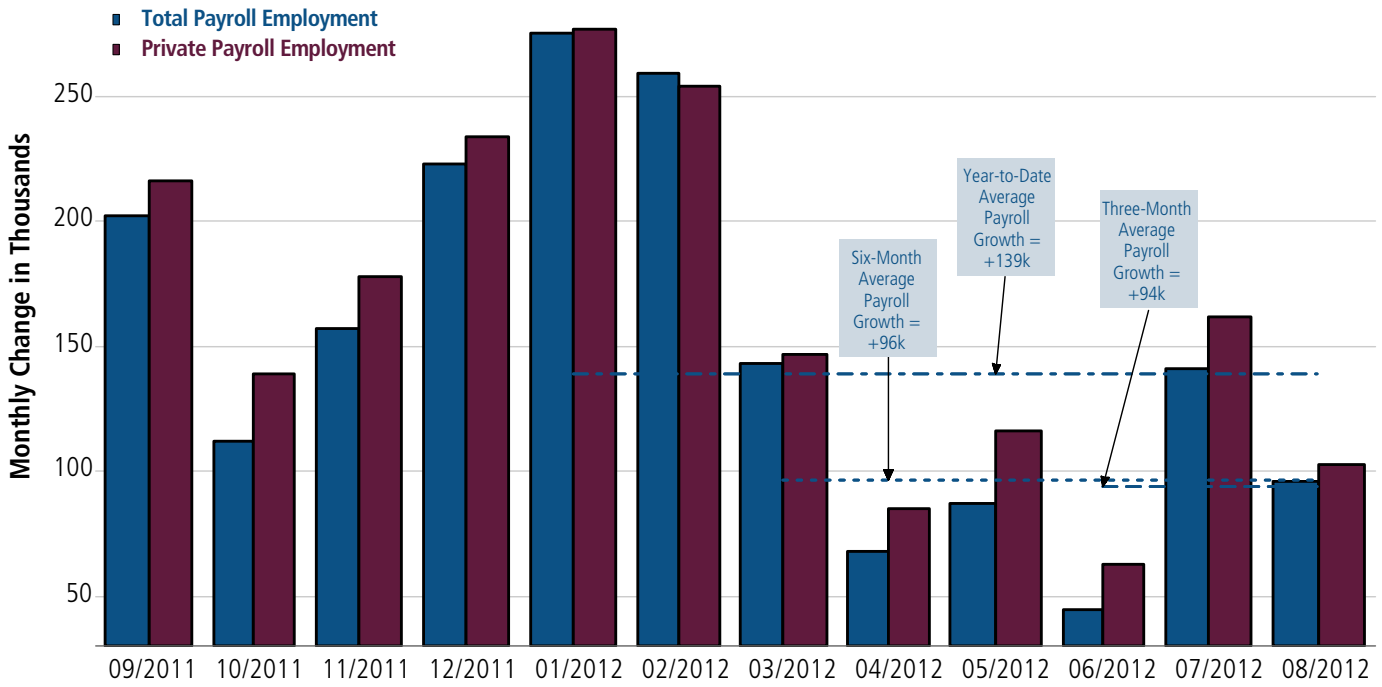
Leafing through this morning's jobs report, we spotted a common phrase used by the BLS report writers: "little changed", "nearly unchanged", "essentially unchanged". That sums up August's *Employment Situation* report nicely. With nonfarm payroll employment increasing just +96k (compared to market expectations at +134k), the unemployment rate remained stuck above 8% for the 43rd consecutive month.

According to our favorite gauge, the employment-to-population ratio, the labor market has hardly improved in three years: it ticked down to 58.3% in August. This means that for every ten working age people, fewer than six have a job. What is more, this month's decline in the unemployment rate (to 8.1% from 8.3%) was driven by more people leaving the labor force (-368k), not by more people working. Taken in tandem, these two metrics do not suggest a healthy labor market.

The market wants to know: does this weak report guarantee "QE3" (a new bond buying program)? We doubt this report alone will sway Fed hawks or doves in either direction. Prudence tells us to look beyond one month's data. Moreover, the debate on the FOMC is **NOT** whether or not the economy is weak – even the hawks admit to disappointing and soft growth. The real debate has to do with the Fed's ability to further stimulate the economy with bond purchases. The hawkish participants opine that monetary policy can do little to bring the unemployment rate down in short order ("it's structural!"), while the doves insist further easing will help ("it's cyclical!").

Our calculus for Fed action is unchanged. As mentioned last month, we think the economy needs +160k per month each and every month to achieve the Fed's own, overly-optimistic unemployment rate forecast by the end of 2013 (issued after the June FOMC meeting). The average year-to-date is only +139k and the three-month moving average is even worse, at +94k (***see Chart below***). This situation will likely prompt additional actions. Chairman Bernanke believes bond buying does stimulate the economy (he argued this at Jackson Hole last week; **our view on the ineffectiveness of QE is addressed here** http://payden.com/pdf/EconUpdateUN202012.pdf). Unless met with tremendous opposition, he will do his best to usher the FOMC down the path of further easing. At the very least, the FOMC is likely to engage in some form of open mouth operations (what it calls "forward rate guidance") at its two-day meeting next week.

PACE OF US JOB GROWTH CONTINUES TO DISAPPOINT



Source: BLS