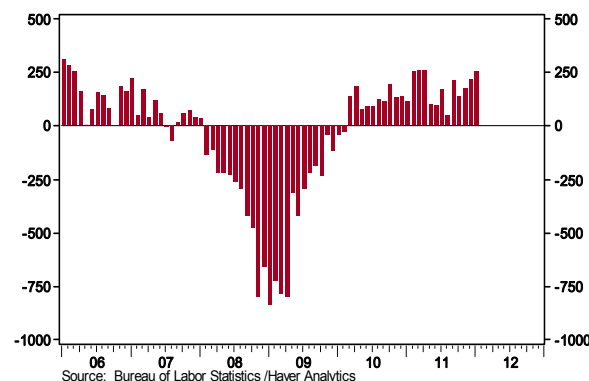


January Employment Report

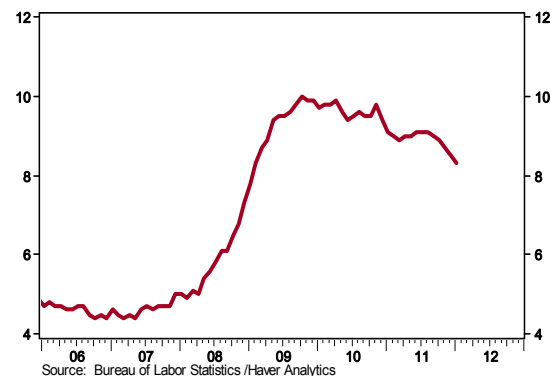
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Non-farm payrolls increased 243,000 in January and were up 303,000 including revisions to November/December. The consensus expected a gain of 140,000.
- Private sector payrolls increased 257,000 in January. Revisions to November/December added 66,000, bringing the net gain to 323,000. December gains were led by professional & business services (+70,000), manufacturing (+50,000), leisure & hospitality (+44,000), health care (+31,000), and construction (+21,000). The large swings in couriers/messengers the past few years were wiped up by updated seasonal-adjustment factors.
- The unemployment rate dropped to 8.3% from 8.5% in December.
- Average weekly earnings – cash earnings, excluding benefits – rose 0.2% in January and are up 1.9% versus a year ago.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Implications: There is only one word for it – Blowout! This makes the second consecutive month that the employment report surprised big-time to the upside and was the best report since the start of the recovery. Private payrolls were up 257,000, crushing the consensus expected gain of 160,000. Revisions for the past two months added another 66,000 and an annual “benchmark” revision added 143,000 for the year ending in March 2011 (+165,000 including government workers). Total hours worked were up 0.2% in January and were revised up for December. The jobless rate dropped to 8.3%, down from 9.1% a year ago. Moreover, the drop happened despite an increase in the labor force of 249,000, which more than outweighed the losses of 167,000 in November/December. The labor force is now up 907,000 from a year ago. As you can imagine, seeing this data tempts us to take a victory lap; our forecast of nonfarm payroll gains of 180,000/month this year may now be too low. However, our euphoria is tempered slightly by the impact of the weather, which has been unusually mild. The household survey shows that weather in January kept 206,000 people away from their jobs – in a typical January, this number averages 430,000. But, wait a minute. You can’t take this difference of 224,000 and subtract it from the payroll survey. The weather stuff comes from the household survey, which showed a 631,000 job gain in January. Without the weather it would have been more than 400,000 and the unemployment rate would have still fallen. In other words, it’s still a great report, but we expect a payback if and when the weather gets worse. The bottom line for monetary policy is that a third round of quantitative easing, which we always believed was very unlikely, now looks even less so. The bottom line for the economy is that consumer purchasing power keeps growing. Hours worked in the private sector are up 2.7% in the past year, while average hourly earnings are up 1.9%. This translates into a 4.6% gain in cash earnings (excluding fringe benefits, like health insurance), which is more than enough to outpace inflation. The “growth deniers” need to develop a new narrative.

Employment Report <i>All Data Seasonally Adjusted</i>	Jan-12	Dec-11	Nov-11	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	8.3	8.5	8.7	8.5	8.8	8.9
Civilian Employment (monthly change in thousands)	847	176	317	447	365	192
Nonfarm Payrolls (monthly change in thousands)	243	203	157	201	167	163
Construction	21	31	1	18	11	10
Manufacturing	50	32	3	28	16	20
Retail Trade	11	6	34	17	12	16
Finance, Insurance and Real Estate	-5	4	11	3	2	2
Professional and Business Services	70	63	39	57	52	50
Education and Health Services	36	28	20	28	35	35
Leisure and Hospitality	44	19	42	35	28	30
Government	-14	-17	-21	-17	-10	-23
Avg. Hourly Earnings: Total Private*	0.2%	0.1%	0.1%	1.4%	1.4%	1.9%
Avg. Weekly Hours: Total Private	34.5	34.5	34.4	34.5	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.5%	0.2%	3.9%	2.6%	2.7%

*3, 6 and 12 month figures are % change annualized