

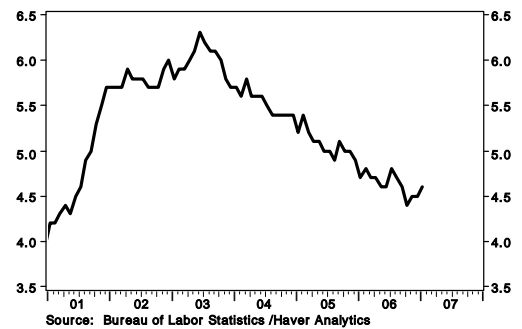
## JANUARY EMPLOYMENT REPORT

**Chief Economist - Brian S. Wesbury**  
**Senior Economist – Robert S. Stein, CFA**  
**Economic Research Analyst – Trevor D. Scott**

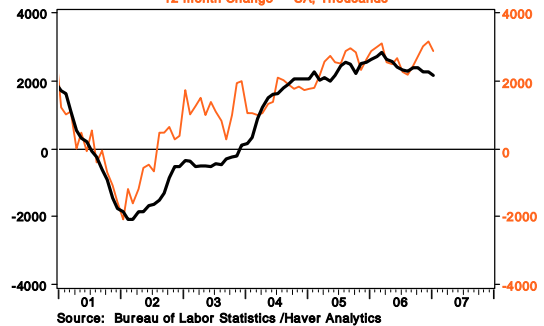
- Non-farm payrolls increased by 111,000 in January, below the consensus expected gain of 150,000. However, payroll gains in November and December were revised up a total of 81,000. The combined impact of annual benchmark revision (which added 752,000 jobs), monthly revisions and new seasonal adjustments boosted the governments' current estimate of payrolls by 933,000 in December.
- The unemployment rate ticked up to 4.6% as growth in the labor force increased more rapidly than total employment. In addition, unseasonably harsh January weather (think Denver snowstorms) kept 153,000 more people out of work this January versus January 2006. Removing the weather effect, the unemployment rate would have been 4.5%, the same as November and December.
- Weather may have held back average hourly earnings, which increased just 0.2% in January. However, because of declining energy prices, the CPI will be benign in January meaning that real average hourly earnings will likely increase once again.

**Implications:** The job market continues to be in excellent shape. Although payrolls expanded less than expected, revisions to past data put the total level of jobs above where the consensus expected. The US has added 2.1 million payroll jobs in the past 12 months, while the household measure of employment is up 2.9 million. We believe the gap between these two measures of job growth suggests further future upward revisions to the payroll numbers. In the near term, some of the shortfall in January job growth was weather related, suggesting stronger months ahead with faster payroll growth and a lower unemployment rate. In addition, earlier this week consumer confidence data showed that the share of consumers agreeing that "jobs are plentiful" hit the highest level in more than five years – another leading indicator of a lower unemployment rate ahead. Today's report supports our view that the economy is strong and interest rate cuts are nowhere in sight.

Civilian Unemployment Rate: 16 yr +  
SA, %



Nonfarm Payroll  
12-month Change SA, Thousands  
Civilian Employment: Sixteen Years & Over  
12-month Change SA, Thousands



<b>Employment Report</b> <i>All Data Seasonally Adjusted</i>	<b>Jan-07</b>	<b>Dec-06</b>	<b>Nov-06</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>12-month moving avg</b>
<b>Unemployment Rate</b>	4.6	4.5	4.5	4.5	4.6	4.6
<b>Civilian Employment (monthly change in thousands)</b>	31	303	286	207	271	238
<b>Nonfarm Payrolls (monthly change in thousands)</b>	111	206	196	171	168	179
<b>Construction</b>	22	10	-24	3	2	8
<b>Manufacturing</b>	-16	-18	-23	-19	-20	-9
<b>Retail Trade</b>	4	-14	30	7	2	-2
<b>Finance, Insurance and Real Estate</b>	4	12	7	8	12	14
<b>Professional and Business Services</b>	25	74	64	54	39	42
<b>Education and Health Services</b>	31	50	42	41	45	40
<b>Leisure and Hospitality</b>	23	40	67	43	39	37
<b>Government</b>	14	1	6	7	22	24
<b>Avg. Hourly Earnings: Total Private*</b>	0.2%	0.4%	0.3%	3.6%	3.6%	4.0%
<b>Avg. Weekly Hours: Total Private</b>	33.8	33.9	33.8	33.8	33.8	33.8
<b>Index of Aggregate Weekly Hours: Total Private*</b>	-0.1	0.5	0.0	1.5	1.3	2.1

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