

JANUARY EMPLOYMENT REPORT

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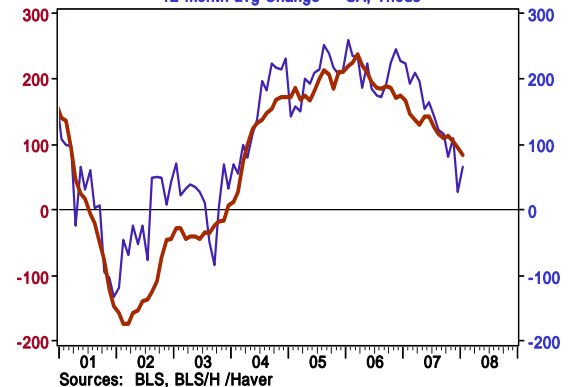
- Non-farm payrolls declined 17,000 in January while revisions to November and December added 9,000. The consensus expected a gain of 70,000.
- Private sector payrolls increased 1,000 in January. The weakest sectors were manufacturing (down 28,000), construction (down 27,000, all of which were in home building), and professional and business services (down 11,000). Healthy sectors included education and health (up 47,000), leisure/hospitality (up 19,000), and retail trade (up 11,000).
- The unemployment rate fell to 4.9% versus a consensus expected 5.0%.
- Average hourly earnings rose 0.2% and are up 3.7% versus a year ago.

Implications: On its face, today's decline in January payroll jobs is very disappointing. However, we need to be careful not to read a book by its cover. Recent history, and the details beneath the surface, point to a healthier labor market than the headline payroll figure suggests. First, there is a history of upward revisions for recent weak reports. August 2007 was originally reported down 4,000, now estimated at +74,000; December was originally reported as up only 18,000, now estimated at +82,000. Second, the Labor Department uses a birth/death model to gauge net job creation at small firms that usually fly under the radar of the payroll survey. In January, BLS assumed these small firms lost 378,000 jobs. This is a much larger negative than usual (last year they subtracted just 175,000). Third, the unemployment rate fell to 4.9%, while the share of adults who are working increased to 62.9% from 62.7% last month. Fourth, the BLS reported a highly unusual drop of 30,000 teaching jobs in January that may have been related to the MLK Holiday. This should be reversed next month. Finally, two days ago the ADP employment report suggested payrolls increased 130,000. We think the truth about the labor market is somewhere in between that number and today's 17,000 decline. Overall, we do not believe today's report signals the onset of a recession.

Civilian Unemployment Rate: 16 yr +
SA, %



All Employees: Total Nonfarm
12-month avg Change SA, Thous
Civ. Employment (Pop. Smoothed and Payroll Compatible)
12-month avg Change SA, Thous



Employment Report <i>All Data Seasonally Adjusted</i>	Jan-08	Dec-07	Nov-07	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.9	5.0	4.7	4.9	4.8	4.7
Civilian Employment (monthly change in thousands)	539	-939	605	68	89	66
Nonfarm Payrolls (monthly change in thousands)	-17	82	60	42	70	83
Construction	-27	-45	-57	-43	-31	-23
Manufacturing	-28	-20	-3	-17	-23	-22
Retail Trade	11	-12	44	14	4	5
Finance, Insurance and Real Estate	-2	-1	-23	-9	-12	-8
Professional and Business Services	-11	70	9	23	30	24
Education and Health Services	47	56	32	45	44	46
Leisure and Hospitality	19	22	24	22	32	30
Government	-18	28	16	9	20	15
Avg. Hourly Earnings: Total Private*	0.2%	0.4%	0.3%	3.7%	3.2%	3.7%
Avg. Weekly Hours: Total Private	33.7	33.8	33.8	33.8	33.8	33.8
Index of Aggregate Weekly Hours: Total Private*	-0.3	0.1	0.0	-0.7	0.2	0.9

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