Vol. 6, Issue 34
Nov. 2, 2012

Something to Think About

OAKWORTH CAPITAL BANK

COMMON CENTS

The Employment Situation report is arguably the most important economic release. So, I was surprised when I read an article on Bloomberg this week imploring potential voters to not base their vote for President on this morning's number. But, if the economy is the largest political issue, how could the payroll number NOT impact at least a few people? What are folks supposed to do? Ignore it? Pretend it doesn't matter?

I suppose the thought process at Bloomberg View was: "one month of labor market data shouldn't unduly impact a decision of such major importance." So what if the ultimate number was, say, 25K more or less than expected? That is essentially a rounding error in the US economy. To that end, yeah, you probably shouldn't let a headline number skew your decision making process. But what if you were to really delve into the numbers?

That is a different story altogether, but so few people actually go to the trouble of analyzing the 38-page report. They see this morning's headline: "Economy creates 171K jobs, more than expected. Unemployment Rate ticks up to 7.9%." That is enough, right? I guess it is for Joe Sickspaque.

Still, I was surprised when I came out of a meeting this morning at 9:30 to see the markets had fallen into red territory. When I had gone into the conference room at 8:30, it looked as though we were going to have a pretty good day; after all, stock futures were positive, and why not? 171K jobs was better than expected, and the Bureau of Labor Statistics had made a positive revision to the September number. All told, at first blush, the number looked pretty good, the slight uptick in the Unemployment Rate notwithstanding.

In fact, I had every intention of writing this was one of the best jobs reports in recent memory, and how fortunate it was for President Obama to have it so close to the election! What a week it would have been for him! Arm in arm with Republican heavyweight, literally and figuratively, Chris Christie; an endorsement from Michael Bloomberg, the mayor of New York, AND a strong payroll number? What more could President Obama want? In truth, I bet staffers at the White House were downright giddy when the payroll number came out this morning, if they hadn't already gotten it from the BLS already. Ha.

So what happened? Why did everyone sour on the report, and so quickly? It couldn't have been the slight increase in the Unemployment Rate, could it have? Is it because we had such a strong rally yesterday, and the market was/is just giving back some of the gains? What is going on here?

I wanted to know that as well, and poured through the report. The answer had to be in there, somewhere; all it was going to take was a little time on my part. Could I find the dark clouds in the silver lining headline? As Sarah Palin might say: "you betcha."

Now, let me, um, start by saying any job is better than no job, and any job creation is better

Inside this issue:

**On the average, five times as many people read the headline as read the body copy. When you have written your headline, you have spent eighty cents out of your dollar.
David Ogilvy**

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than the alternative. As such, a reading of 171K jobs is not a bad reading, in and of itself. We should be happy to have it. With that said, you do have to question what types of jobs the economy is creating. Will they significantly increase overall personal income? Will they dramatically alter the aggregate consumer's ability to spend in an economy so heavily reliant on consumer spending? In short, are they the types of jobs which could help propel the economy to 3-4% economic growth? The type of growth we need to consistently have IF we are to make a meaningful impact on our budget deficit?

To find the answer to these questions, my first stop in the lengthy report was Table B-6: "Employment of production and nonsupervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted." I hoped this would tell me if the economy is creating, in aggregate, high level jobs. Clearly, there are plenty of high level "nonsupervisory" jobs, so this is imperfect. However, it would or could start the ball rolling.

In October 2011, there were 90,546K of these types of jobs out of a total private, nonfarm payroll number of 109,781K, or 82.5%. This past month, there were 92,358K out of a total number of 111,744. A little math told me that was/is a difference of 1,812K jobs in 12 months. That was and is good news. However, total job growth in the private sector has been 1,963K over the last 12 months, meaning "production and nonsupervisory" jobs have constituted 92.3% of total private sector job growth. As such, "supervisory" job growth has been on 7.7% of the total. Put another way, nonsupervisory jobs have increased 2.0% since last October, and supervisory jobs have gone up a less spectacular 0.79%.

With the numbers skewed the way they were/are, I intuited wages & salaries were/are probably not going up as much as we all would like. To find out if this was in fact the case, I went to Table B-3: "Average hourly and weekly earnings of all employees on private nonfarm payrolls by industry sector, seasonally adjusted." In October 2011, the average weekly wage of a worker in the private sector was $798.77/week. This past month, it was $811.15/week; that is an increase of 1.55%, which isn't all that much, barely keeping up with inflation, if that. But this number is for ALL private sector workers, what about just "production and nonsupervisory" personnel? You know, the types of jobs the economy is actually creating? For that I had to go to Table B-6, and I didn't really like what I found.

In October 2011, the average weekly was for this category of worker in the private sector was $659.51. Last month, it was $664.94, for an increase of, drum roll please, 0.82%. Given the last 12-month reading of the Consumer Price Index (CPI), the official measure of inflation in the US, was 2.0%, it appears the average American worker simply isn't keeping up with the cost of living. In case you think I might be cherry picking the numbers, last month nonsupervisory workers saw their weekly wages go down $2.32, in aggregate. Hmm.

So, what jobs are we actually creating? It was time to go to Table B-1: "Employees on nonfarm payrolls by industry sector and selected industry detail."

Last month, out of the 171K jobs the economy created, 28K were in 'Leisure & Hospitality'; 33.5K were in 'Administrative & Waste Services,' with the predominance in temp and building support services, and 36.4K were in 'Retail Trade.' So, these 3 sectors, and sub-sectors, which make up approximately 27.4% of nonfarm payrolls, accounted for 57.2% of total job growth in October 2012. Again, lest you think I am cherry picking the data, these 3 sectors have been responsible for 38.6% of all job growth over the last 12 months, and 36.9% of all jobs YTD 2012. So what?

Well, the so what of it all is these three sectors which, again, have accounted for a disproportionate number of new jobs recently, pay less than the average. In September 2012, the weekly average for nonsupervisory employees in these sectors were: 1) Leisure & Hospitality = $289.34, and; 2) Retail Trade = $420.74, and; 3) Administrative & Waste Services = $553.38.

After doing all this math, whew, I started thinking perhaps this Employment Situation report wasn't as awe-

Something to Think About, *cont.*

some as the headlines suggested. I had to keep reminding myself 171K jobs were 171K jobs, and that is a good thing, if not great. However, the cherry on top would be if the economy were creating 171K jobs each month in sectors where the average American worker could get ahead of inflation.

That is where we are right now, and most people know it. Yes, the economy is growing. Yes, the economy is creating jobs. Yes, things are better than they were in 2008-2009, but….the economy isn't growing rapidly. The economy isn't creating enough high-paying, career-type jobs. Things aren't where any of us would like for them to be.

Hey, you don't have to listen to politicians and pundits on the TV; just go to the Employment Situation report, and delve into the numbers. The truth is all there, in black & white. But do enough people do this? Or at least enough to drive the market down after the headline was much better than expected? There has to be something else going on here to today. What is it?

Political types, especially conservative political types, would suggest this morning's report gives the President another round of ammunition going into Tuesday's elections. Shoot, liberals might even tell you the same thing. After all, everything revolves around Washington, right? And perhaps this might have an impact on some individual investors out there, who are biting bullets in angst over the prospects of 4 more years of an Obama Administration.

They are missing the point.

While there are enough dark clouds in today's release for pessimists, the truth is stranger than fiction. You see, investors are now worried the Fed won't pump even more liquidity into the markets, since the economy is creating "enough" new jobs. Remember, the Fed has a dual mandate of low inflation and unemployment. Since the official inflation gauges aren't currently cause for alarm, Bernanke & Co. have been flooding the financial markets with cash because job growth has been relatively non-existent. However, a steady dose of months like October takes a lot of starch out of the argument for additional stimulus.

Therefore, no matter how you analyze or slice & dice this Employment Situation report, the market wasn't going to like it. First scenario; the number is less than expected, and the markets sell off because the economy is in bad shape. Second scenario; the headline reading is as expected, but the underlying data suggests the labor market isn't as healthy as believed. Third scenario; the labor picture is better than expected, which keeps the Fed on the sideline for the foreseeable future.

Me? You know, the data is what it is, and perhaps Bloomberg is right: voters shouldn't let this payroll data influence their decision on Tuesday. We all know what the past has been; we need to focus on the future, and which candidates have a better game plan. Which are they?

I'll let you decide.

Important Economic Releases

<table>
<tr><th>Release</th><th>Survey</th><th>Actual</th><th>Prior</th><th>Comments</th></tr>
<tr><td>Personal Income
Personal Spending (Sep)</td><td>0.4%
0.6%</td><td>0.4%
0.8%</td><td>0.1%
0.5%</td><td rowspan="8">Okay….Wall Street is claiming Hurricane Sandy cut into overall sales and economic activity the last week of the month, particularly in auto sales. There is probably some truth to that, so we have to let some slight misses in the economic data slide this week. We shall see how much of an impact the aftermath will have on November activity.

With the exception of that, the data, as a whole, bespoke of an economy growing at a modest pace. Too slow to fire folks up; however, too decent to induce the Fed into dumping more money into the system. In so many ways, perhaps everyone sort of woke up to reality this week.</td></tr>
<tr><td>Chicago Purchasing Managers (Oct)</td><td>51.0</td><td>49.9</td><td>49.7</td></tr>
<tr><td>Consumer Confidence (Oct)</td><td>73.0</td><td>72.2</td><td>68.4</td></tr>
<tr><td>ISM Manufacturing (Oct)</td><td>51.0</td><td>51.7</td><td>51.5</td></tr>
<tr><td>Total Vehicle Sales (Oct)</td><td>14.90M</td><td>14.22M</td><td>14.88M</td></tr>
<tr><td>Change in Nonfarm Payrolls (Oct)</td><td>125K</td><td>171K</td><td>148K</td></tr>
<tr><td>Unemployment Rate (Oct)</td><td>7.9%</td><td>7.9%</td><td>7.8%</td></tr>
<tr><td>Factory Orders (Sep)</td><td>4.6%</td><td>4.8%</td><td>-5.1%</td></tr>
</table>

Tables & Data Points

STOCKS	**Dow Industrials**	**S&P 500**	**NASDAQ**	**Russell 2000**	**Nikkei 225 (¥)**	**DJ STOXX 50 (€) Price**
12/31/10	11,577.51	1,257.64	2,652.87	783.65	10,228.92	2,792.82
12/31/11	12,217.56	1,257.60	2,605.15	740.92	8,455.35	2,216.55
10/11/12	13,326.39	1,432.84	3,049.42	829.78	8,546.78	2,487.08
10/18/12	13,548.94	1,457.34	3,072.87	837.12	8,982.86	2,574.19
10/25/12	13,103.68	1,412.97	2,986.12	816.82	9,055.20	2,483.43
11/1/12	13,232.62	1,427.59	3,020.06	827.85	8,946.87	2,533.87

BONDS	**3-Mo UST**	**6-Mo UST**	**2-Yr. UST**	**5-Yr. UST**	**10-Yr. UST**	**30-Year UST**
12/31/10	0.13	0.19	0.60	2.01	3.30	4.34
12/31/11	0.01	0.06	0.24	0.83	1.88	2.90
10/11/12	0.10	0.15	0.26	0.66	1.67	2.85
10/18/12	0.10	0.15	0.30	0.79	1.84	3.02
10/25/12	0.11	0.15	0.31	0.82	1.82	2.98
11/1/12	0.09	0.15	0.28	0.74	1.73	2.90

OTHER	**Prime**	**Fed Funds**	**3-Month LIBOR**	**Gold/troy oz.**	**Oil—WIT/brl.**	**$/Euro**	**JPY/$**	**$/GBP**	**CAD/$**
12/31/10	3.25	0.25	0.30	1,421.40	91.38	1.337	81.19	1.559	0.994
12/31/11	3.25	0.25	0.58	1,566.80	98.83	1.296	76.99	1.551	1.017
10/11/12	3.25	0.25	0.34	1,768.80	92.07	1.293	78.35	1.605	0.979
10/18/12	3.25	0.25	0.32	1,743.30	92.10	1.307	79.28	1.604	0.985
10/25/12	3.25	0.25	0.31	1,712.00	86.05	1.294	80.31	1.612	0.995
11/1/12	3.25	0.25	0.31	1,715.50	87.09	1.294	80.13	1.613	0.997

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