

DAILY GLOBAL
COMMENTARY

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Employment Data Confirm a Recession Is Underway

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Civilian Unemployment Rate: 5.1% in March vs. 4.8% in February

Payroll Employment: - 80,000 in March vs. -76,000 in February, net loss of 67,000 jobs after revisions of payroll estimates for January and February.

Hourly earnings: +5 cents to \$17.86, 3.6% yoy change vs. 3.73% yoy change in February; cycle high was 4.28% yoy change in Dec. 2006.

HIGHLIGHTS OF THE MARCH 2008 EMPLOYMENT REPORT

	<u>Oct-07</u>	<u>Nov-07</u>	<u>Dec-07</u>	<u>Jan-08</u>	<u>Feb-08</u>	<u>Mar-08</u>
Household Survey						
Chg. in Civilian Labor Force (000)	-200	522	38	-42	-450	410
Chg. in Civilian Employed (000)	-244	631	-436	37	-255	-24
Civilian Unemployment Rate	4.8	4.7	5.0	4.9	4.8	5.1
Participation Rate	65.9	66.0	66.0	66.1	65.9	66.0
Employment-Population ratio	62.7	63.0	62.7	62.9	62.7	62.6
Establishment Survey						
Chg. in Total Nonfarm Payrolls (000)	140	60	41	-76	-76	-80
Chg. in Private Nonfarm Payrolls (000)	105	44	-14	-79	-109	-98
Chg. in Manufacturing Payrolls (000)	-25	-3	-22	-35	-46	-48
Chg. in Services - Private Sector (000)	142	96	59	-10	-27	-5
Chg. in Government payrolls (000)	35	16	55	3	33	18
Total Workweek (Hours)						
Total Workweek (Hours)	33.8	33.8	33.8	33.7	33.7	33.8
Manufacturing Workweek (Hours)	41.2	41.3	41.1	41.1	41.2	41.3
Manufacturing Overtime (Hours)	4.1	4.1	4.0	4.0	4.0	4.1
Average Hourly Earnings						
Average Hourly Earnings	17.59	17.64	17.70	17.75	17.81	17.86
Chg. from prior month	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%
Chg. from year ago	3.8%	3.8%	3.7%	3.7%	3.7%	3.6%
Average Weekly Earnings						
Average Weekly Earnings	594.54	596.23	598.26	598.18	600.20	603.67
Chg. from prior month	0.1%	0.3%	0.3%	0.0%	0.3%	0.6%
Chg. from year ago	3.5%	3.8%	3.4%	3.4%	3.7%	3.3%
Index of Aggregate Weekly Hours:						
Chg. from prior month in Total Index	0.1%	0.0%	0.1%	-0.4%	-0.1%	0.2%
Chg. from prior month in Mfg. Index	-0.7%	0.4%	-0.6%	-0.1%	-0.2%	0.0%

Household Survey - The unemployment rate increased to 5.1% in March from 4.8% in February. The jobless rate has risen noticeably in the past year from a cycle low of 4.4% in March 2007. The number of unemployed in the economy has risen 1.1 million since March 2007. The increase in the unemployment rate reflects higher jobless rates for adult men (4.6% vs. 4.3% in February),

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adult women (4.6% vs. 4.2% in February), but a lower unemployment rate among teenagers (15.8% vs. 16.6% in February). Sharp increases in the overall unemployment rate are associated with recessions (see chart 1).

Chart 1
Civilian Unemployment Rate: 16 yr +
 SA, %

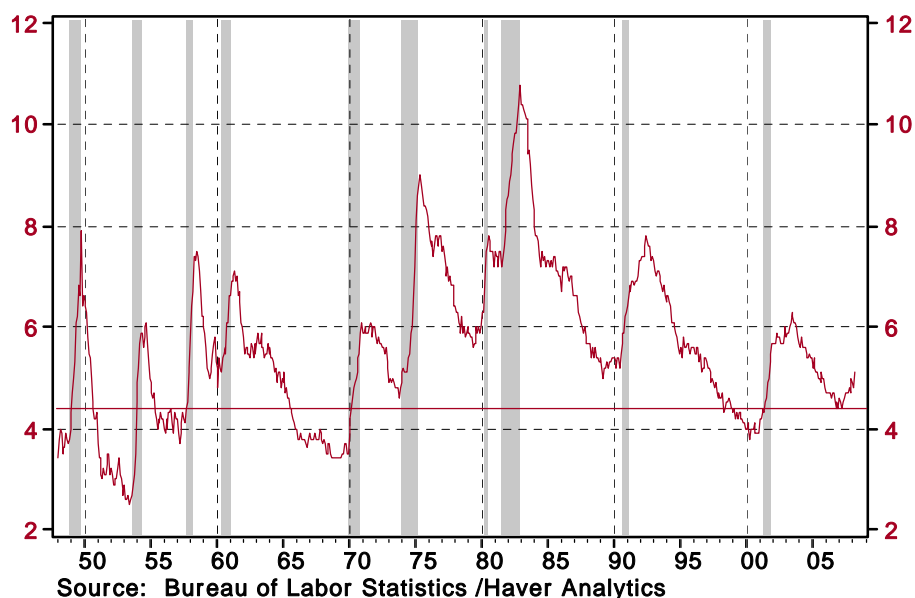


Table 1 Unemployment Rate and Recessions

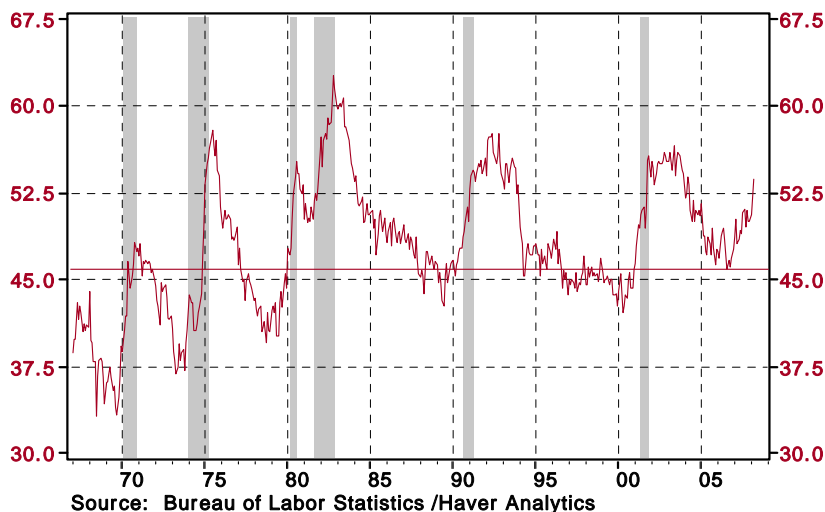
Peak to Trough	Date	Cycle low of unemployment rate prior to onset of recession	Date	Cycle high of unemployment rate after the end of the recession	Number of months*	Increase in jobless rate from cycle low (percentage points)
1957:Q3 - 1958:Q2	Mar-57	5.7	Jul-58	7.5	17	1.8
1960:Q2 - 1961:Q1	Feb-60	4.8	May-61	7.1	16	2.3
1969:Q4 - 1970:Q4	May-69	3.4	Dec-70	6.1	15	2.7
1973:Q4 - 1975:Q1	Nov-73	4.6	May-75	9.0	18	4.4
1980:Q1 - 1980:Q3	May-79	5.6	Jul-80	7.8	14	2.2
1981:Q3 - 1982:Q4	Jul-81	7.2	Dec-82	10.8	18	3.6
1990:Q3 - 1991:Q1	Mar-89	5.0	Jun-92	7.8	39	2.8
2001:Q1 - 2003:Q3	Apr-00	3.8	Jun-03	6.3	39	2.5
Current cycle	Mar-07	4.4	Mar-08	5.1		0.7

*- Number of months between cycle low and cycle high unemployment rate

The number of job losers as a percent of civilians unemployed was 53.7% in March, up from a cycle low of 46.0% in July 2006. As shown in chart 2, significant gains in these readings from cycle lows commence just prior to a recession and continue to trend higher during a recession.

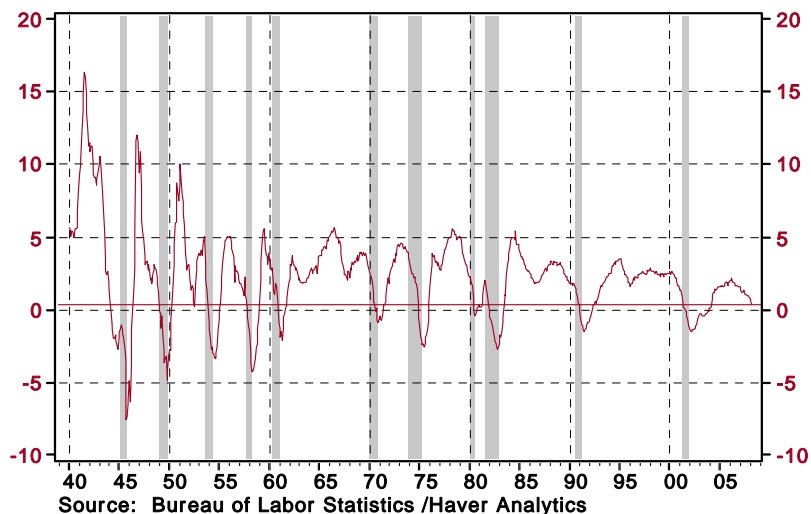
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Chart 2
Job Losers: % of Civilians Unemployed
 SA, %



Establishment Survey – Nonfarm payrolls fell 80,000 in March, following losses of 76,000 jobs in each of the prior two months. There was a net job loss of 67,000 after revisions to payroll estimates of January and February. Private sector employment declined 98,000 in March after a loss of 109,000 jobs in February. The year-to-year change in nonfarm payrolls was 0.35% in March. This is noteworthy because historically the economy has been in turning points of a business cycle at readings higher than the change reported for March 2008 (see chart 3).

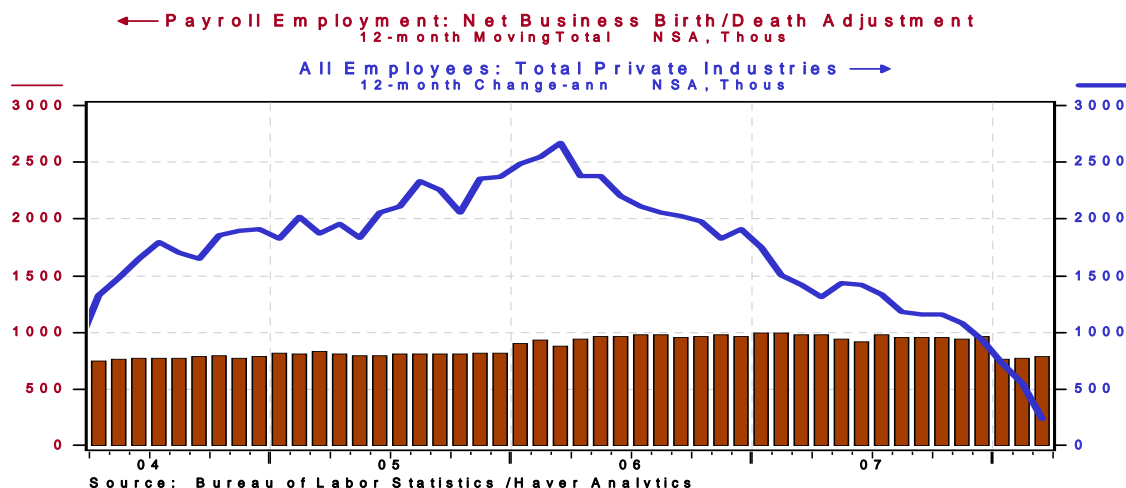
Chart 3
All Employees: Total Nonfarm
 % Change - Year to Year NSA, Thous



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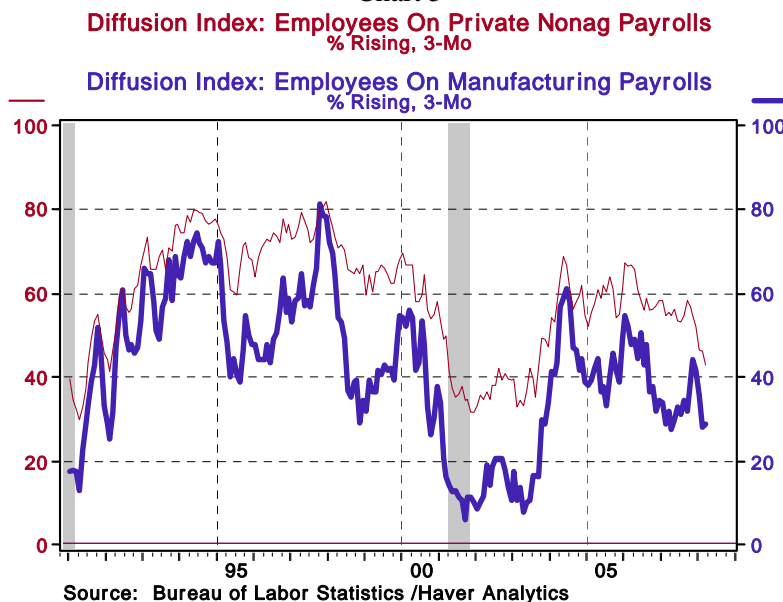
The birth/death adjustment process, which is incorporated in the payroll estimates to capture the creation and termination of businesses missed in the survey, once again shows that job losses would have been more severe in the absence of this adjustment (see chart 4). Without the birth/death adjustment, private payrolls show a net *decline* of 490,000 in the 12 months ended March rather than the reported net increase of 292,000.

Chart 4



Diffusion indexes of both private sector payrolls and factory payrolls (see chart 5) support other details of the March employment report pointing to a significant weakness in hiring in the labor market.

Chart 5



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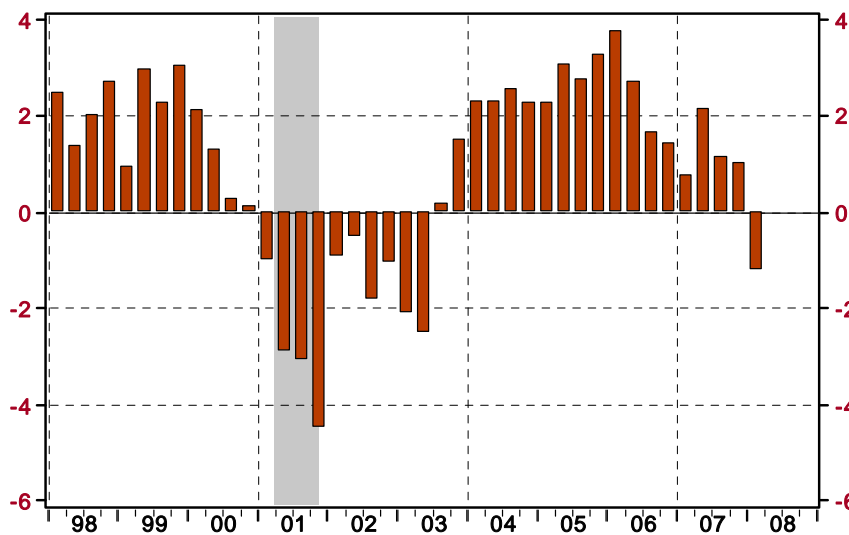
From other details of the employment report, job losses in factories (-48,000), construction (-51,000), professional and business services (-35,000), retail (-12,000), building materials (-9,000) more than offset gains in government (+18,000), leisure and hospitality (+47,000), mining (+13,500), and health care (+23,000) payrolls. In the construction sector, a large part of the loss was in specialty residential and non-residential (-42,000) trade contractors. A strike in an auto parts manufacturing exaggerated losses in the auto sector; but the weakness in employment in this sector has been persistent for several months.

Although the aggregate man-hours index rose 0.2% in March, the quarterly average of the index *fell* at an annual rate of 1.2% in the first quarter, the first drop since the second quarter of 2003 (see chart 6), This suggests, at the very least, very soft real GDP growth in the first quarter, or perhaps, even a contraction in real GDP. The manufacturing man-hours index held steady in March, after three consecutive monthly declines. Industrial production in March is projected to show a decline after a 0.5% decrease in February. On a quarterly basis, the manufacturing man-hours index has dropped for four of the last six quarters, inclusive of a 2.1% annualized decline in the first quarter of 2008.

Chart 6

Aggregate Weekly Hours Index: Total Private Industries

% Change - Annual Rate SA, 2002=100

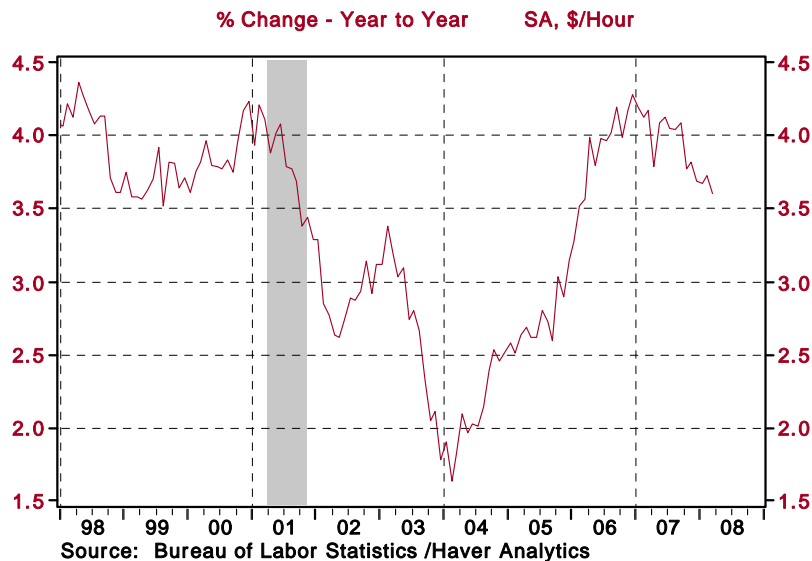


Source: Bureau of Labor Statistics /Haver Analytics

Inflation pressures from hourly earnings are absent. Hourly earnings moved up 5 cents to \$17.86 in March, putting the year-to-year increase at 3.6%, a noticeable deceleration from a 4.28% cycle high reading in December 2006 (see chart 7). The drop in payrolls and the increase in earnings points to only a small increase in the wage and salary component of personal income during March.

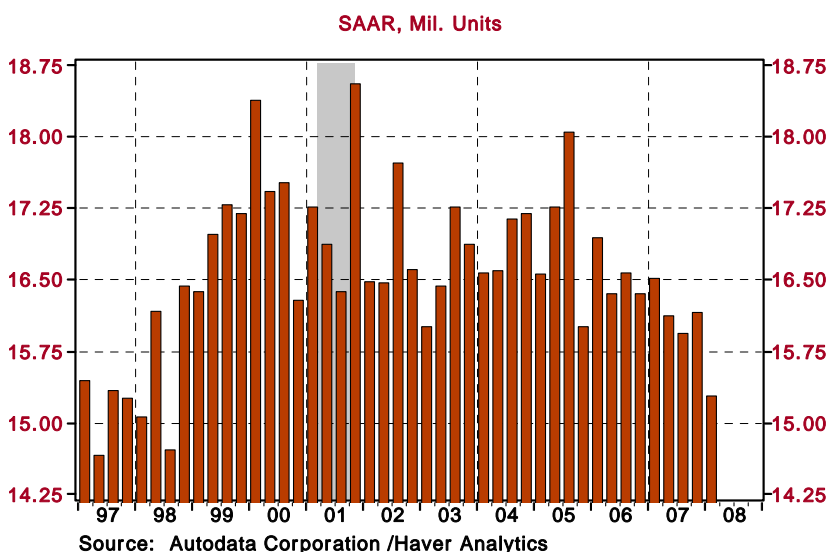
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Chart 7
Average Hourly Earnings: Total Private Industries



Conclusion – The March employment data provide sufficient justification to win over the two dissenting hawkish voters to lower the federal funds rate 25 bps to 2.00% at the April 29-30 FOMC meeting. In addition, the drop in car sales to an annual rate of 15.3 million units in the first quarter from 16.2 million in the fourth quarter, the weakness in new orders reported in the March ISM manufacturing survey, and the sharp drop in consumer confidence measures are other factors supportive of further easing of monetary policy.

Chart 8
Total Light Vehicle Retail Sales {Imported+Domestic}



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Although the outlook for the dollar is uncertain, the current weakness is problematic. The inflationary potential of a weak dollar will continue to remain on the radar screen of the Fed. The moderation of inflation expectations (see chart 9) and core inflation (see chart 10) are comforting to support a 25 basis point cut in the federal funds rate on April 30. The Fed may need to pause after this to assess the impact of the 325 bps easing of the federal funds rate, the fiscal stimulus package, and the various programs in place to address liquidity and credit problems in financial markets.

Chart 9
Inflation Expectations

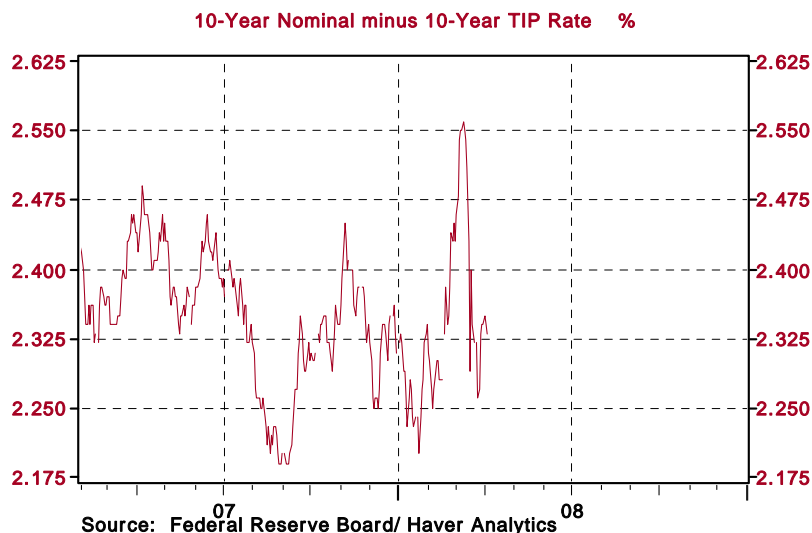
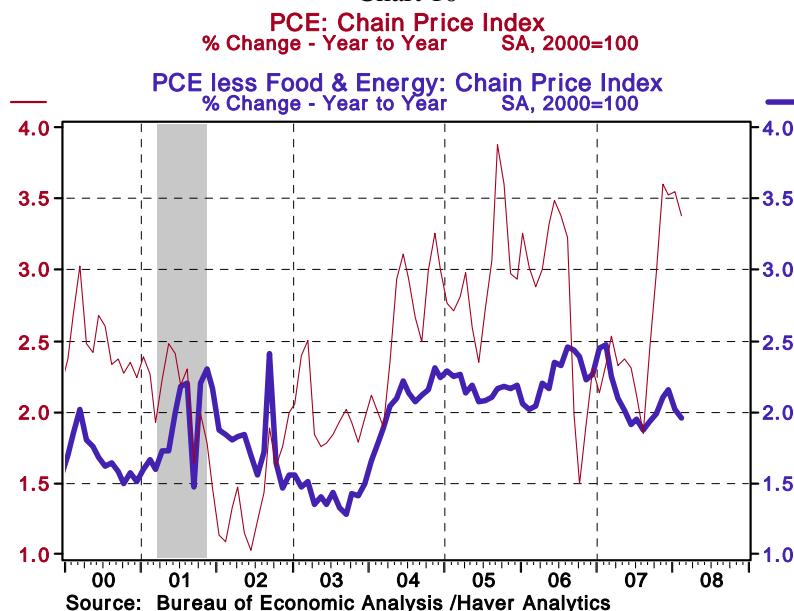


Chart 10



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