

DAILY GLOBAL
COMMENTARY

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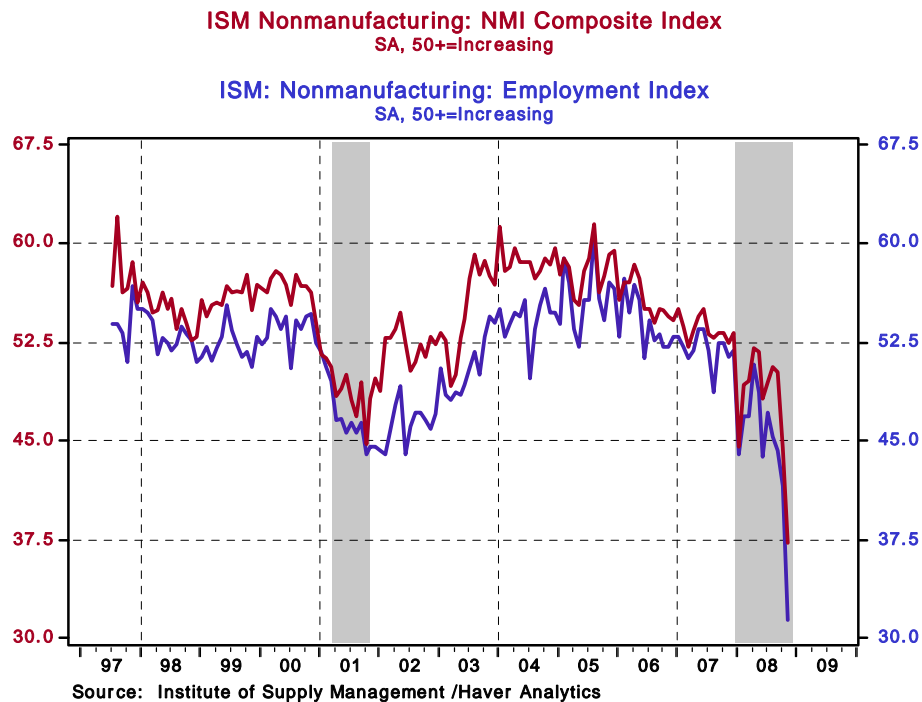
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ISM Non-Manufacturing Index Plunges to Record Low

December 3, 2008

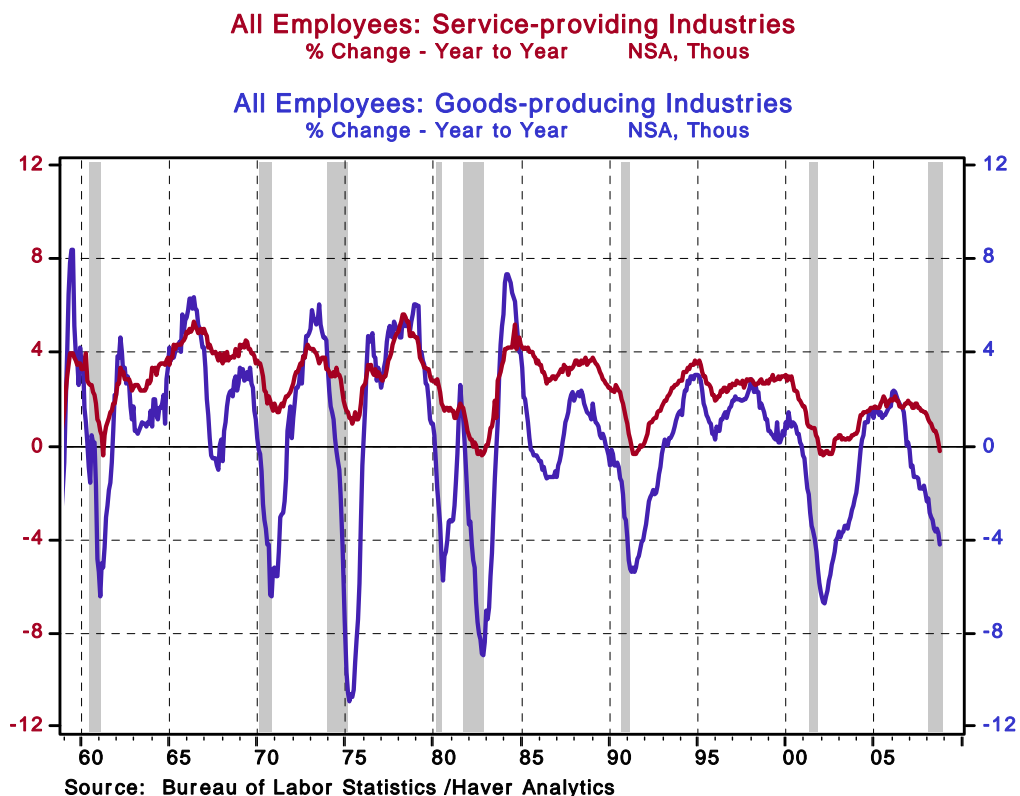
The ISM non-manufacturing composite index dropped to 37.3 in November from 44.4 in October. The November reading is the lowest in the short history of the index, which began in 1997 (see chart 1). Indexes tracking employment (31.3), new orders (35.4) and prices (36.6) registered new lows. The supplier deliveries index rose slightly to 49.5 from 48 in October. Readings above 50 denote an expansion, while readings below 50 signify a contraction.

Chart 1



The sharp plunge in the composite and employment indexes of the ISM non-manufacturing survey raises questions about the extent of the likely decline in service sector employment in the current downturn. The historical record of service sector employment (see charts 2-3) suggests that service sector payrolls suffer to a lesser degree compared with employment in the goods sector (see charts 2 and 4).

Chart 2

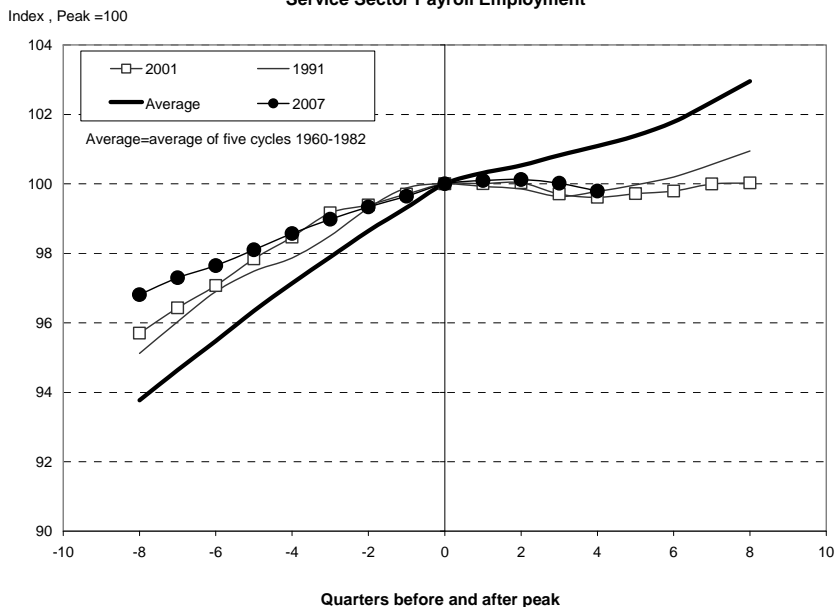


Two important conclusions can be drawn from chart 3: (1) Service sector employment in recent business cycles has dropped within a narrow range of less than 1.0% of the level of employment during the year after peak quarter of a business cycle compared with the period prior to the 1990s when service employment held up reasonably through a downturn (see chart 3) and gathered steam quite rapidly. Of the five business cycles included in the average, the 1981-82 downturn showed a relatively more significant decline in service sector employment compared with the other four cycles. In other words, the employment trend in the service sector in the current recession matches the trend seen in the early part of the 2001 and 1991 economic downturns. In each of these two cycles, employment in services failed to recover for nearly two years (see chart 3). (2) It is too early to predict if the future course of service sector employment will continue to mimic these two cycles. There is a strong likelihood that service sector employment will post a larger decline in the current recession than the two immediate predecessors because it may be the deepest and longest recession in the post-war period. This is a forecast that is subject to revision as new economic data are published.

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Chart 3

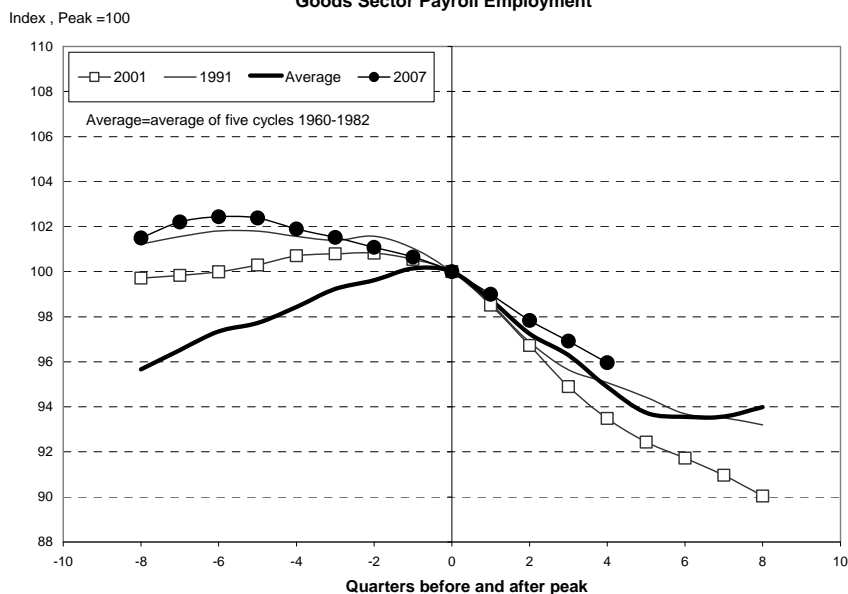
Service Sector Payroll Employment



Note: Chart 3 and 4 are index charts where the level of employment in the quarter corresponding to the peak of the business cycle set to 100 and appropriate computations are made for levels of employment before and after the peak of the business cycle. For example, an index reading of 98 indicates that the level of employment in the relevant quarter was 2.0% below that of the level of employment during the peak quarter of business cycle. Likewise, a reading of 102 indicates that the level of employment in the relevant quarter was 2% higher than the number employed in the quarter identified as the peak of the business cycle. In charts 3 and 4, the level of employment in October 2008 is the proxy for the level of employment in 2008:Q4.

Chart 4

Goods Sector Payroll Employment

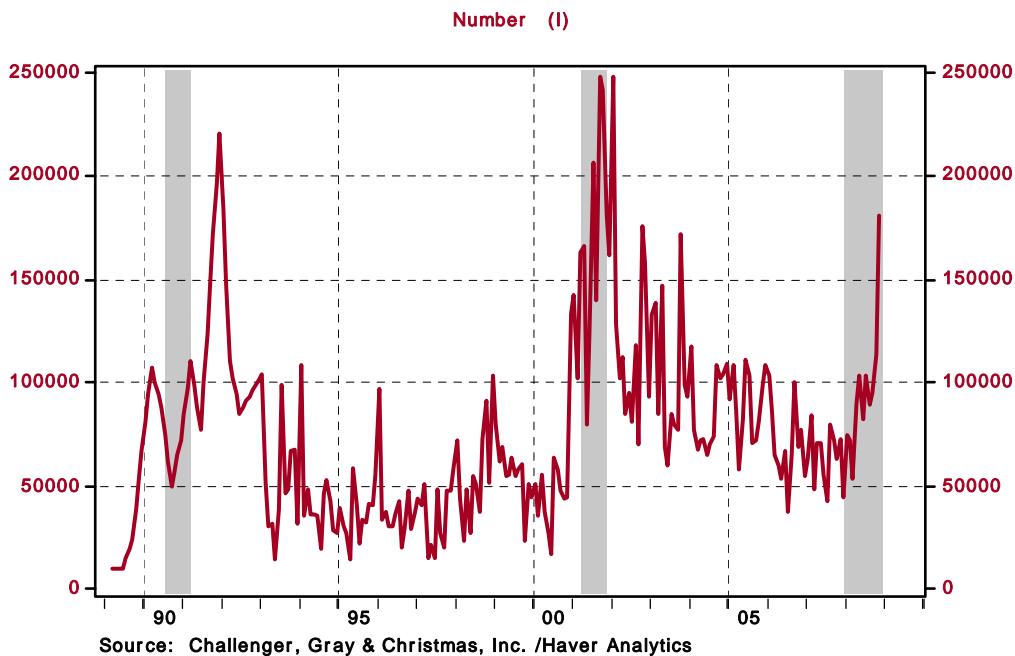


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In related news, the Challenger Employment Report indicates a sharp increase in the number of job cuts to 181,671 in November 2008 vs. 73,140 in November 2007, with the auto and finance sectors making up a majority of job losses. The November employment report is scheduled for publication on December 5.

Chart 5

Challenger, Gray & Christmas: Announced Job Cuts, Total



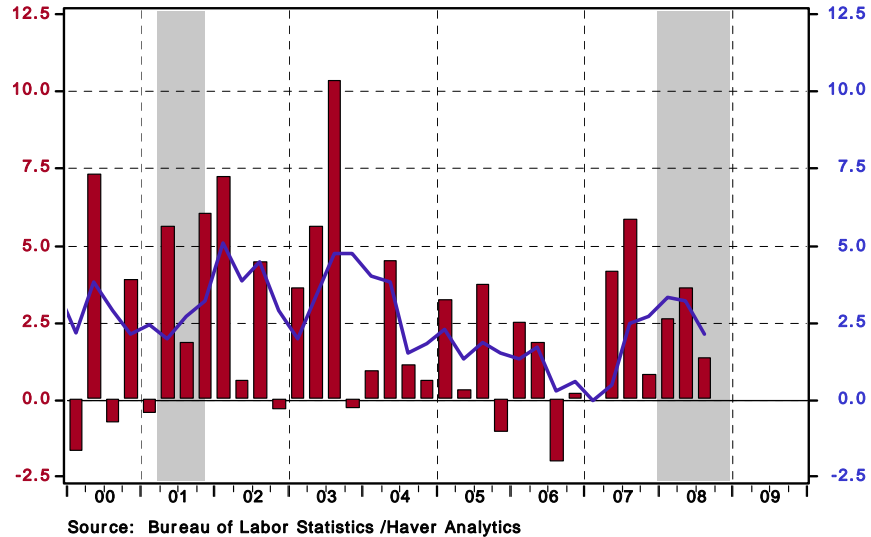
Revisions of Productivity and Costs for 2008:Q3

Productivity of the U.S. economy rose 1.3% in the third quarter vs. a 3.6% jump in second quarter. Productivity gain was estimated to be 1.1% in the advance report published in November. On a year-to-year basis, productivity increased 2.1% during the third quarter vs. a 3.2% gain in the prior quarter.

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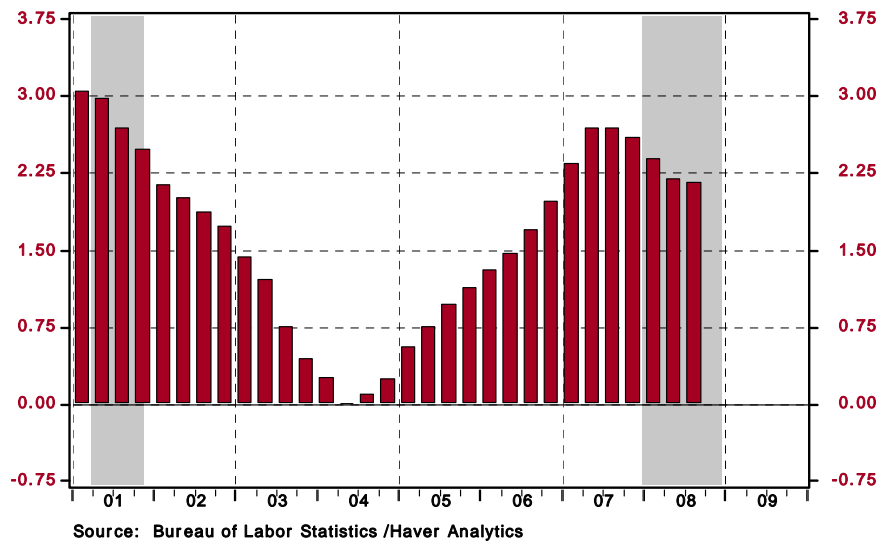
Chart 6
Nonfarm Business Sector: Output Per Hour of All Persons
 SAAR, % Chg

Nonfarm Business Sector: Output Per Hour, All Persons
 SA,%Chg.Yr.Ago



Unit costs advanced 1.4% from a year ago vs. a 0.1% increase in the second quarter. This is not troubling given projections of significantly weak economic conditions. The 12-quarter moving average of unit labor costs in 2008:Q3 is 2.1% vs. 2.7% a year ago (see chart 7).

Chart 7
Nonfarm Business Sector: Unit Labor Cost
 12-qtr MovingAverage SA, %Change.Year.Ago



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