

Preview of US June unemployment

On July 2nd US June unemployment and non farm payrolls will be released. June unemployment is expected to rise 0.2% to 9.6%. This would be the highest level for US unemployment in 26 years but a smaller monthly rise than in the past few months. Non farm payrolls are expected at -368k. In May, the US lost fewer jobs than forecast as non farm payrolls fell by 345k. The trade had expected a non farm payrolls loss of 520k. The 345k decline in May non farm payrolls was the smallest since last September, and about half of the average monthly decline over the last six months. The May non farm payrolls decline confirmed that the pace of US job losses has slowed. The smaller than expected decline in May non farm payrolls sparked speculation that the worst for the US labor market has passed.

Optimism generated by the May non farm payrolls report may prove premature. Initial jobless claims unexpectedly rose 15k to 627k in the week ending June 20th. Jobless claims have receded from over 700k in January and stabilized above 600k. The fact that claims are not continuing to fall means jobs remain hard to get. Recessions end when claims spike lower. The spike lower in jobless claims appears to have stalled. On the positive side, continuing jobless claims dropped in June. This may partly reflect the running out of individual employment benefits. The employment component of the NY NAPM declined to 28.2 from 33.7 in May generating concern that Thursday's US unemployment report may be weaker than expected. The trade will be looking at Wednesday's US ISM manufacturing report and the employment component of the ISM report for further clues to the US labor market outlook. 9 million Americans are receiving jobless benefits. This is triple since the start of the year. 15 states have depleted their employment insurance funds and a record 30 states will have to borrow \$17 bln from the US government next year to cover jobless claims. The June payrolls report may also include job reductions from plant shutdowns at GM and Chrysler. If the auto industry layoffs are included in the June report non farm payrolls could fall more than expected. College students looking for summer work may also boost the unemployment rate.

The trade will be looking to the June report for signs that the jobs destruction in US is nearing an end. Consensus is unemployment rose at a slower pace in June. Even if US job losses slowed in June the US may be facing the risk of a jobless recovery. President Obama says the unemployment rate may soon top 10% and the Fed expects the unemployment rate to remain elevated until 2011. Employers will not begin to hire until they are sure the recovery is sustainable and consumer spending will likely remain weak. The employed have experienced tough times as well with pay cuts, reduced work hours and furloughs. Declining equity markets and house prices have reduced consumer wealth and spending power. Consumer spending is not expected to bounce back as in past recessions because fear of possible job loss has made the consumer more conservative. The major question is whether the US is entering a new era of consumer retrenchment and reduced consumption? June consumer confidence declined to 49.3 from 54.8 in May, a reading of 55 was expected. The decline in consumer confidence may further reduce consumer spending, adds uncertainty to the outlook for the US labor market and suggests that the recession is not over.

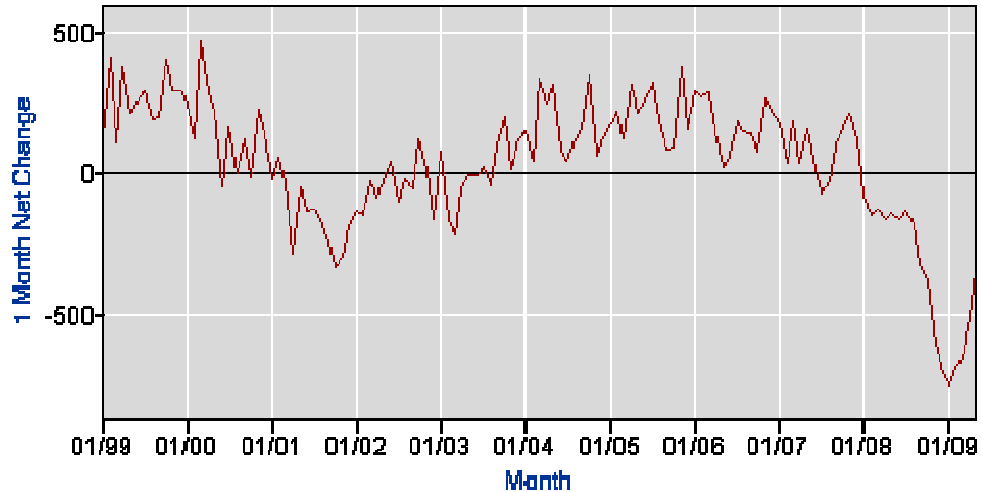


Figure 1 US non farm payrolls

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