

US nfp job losses likely moderated in October

US October unemployment and nonfarm payrolls (nfp) will be released on Friday, November 6th at 8:30 ET. Stability in recent US jobless claims data, a sharp rise in Q3 GDP, improvement in the employment index of the October manufacturing ISM and a continued decline in the ADP unemployment index points to a slowdown in nfp job losses during October. The October ISM employment index rose to its highest level since April 2006 at 53.1 from 46.2 in September. The ISM report suggests that hiring is starting to pick up. The ADP report also shows that job losses slowed. ADP said that employers cut 203k jobs in October compared to 227k in the prior month. In addition, the October Challenger survey said job cuts were 51% slower than a year ago at 55,679 compared to 112,884 in October 2008. The ISM report may overstate the improvement of the labor market because most of the hiring was either based on calling back of laid off workers or adding temporary workers. Officials from the ADP said that they expect unemployment to keep rising even as the economy begins to expand. The ADP report suggests US nfp will likely come in near -190k. A Marketwatch survey says that economists expect an nfp drop of 150k.

US employers shed 263k in September compared to 201k in the prior month. A 180k nfp loss was expected. According to the September report, the number long-term unemployed rose to 5.4 mln and the US has lost 7.2 mln jobs since the recession began in December 2007. The September unemployment rate rose 0.1% to a 26 year high at 9.8%. The largest job losses were in construction, manufacturing, retail trade and government. According to the Bureau of Labor Statistics nearly 500k dropped out of the workforce most likely due to frustration and if the dropouts were included the unemployment rate would be over 10%. If laid off workers who have settled for part-time work or have given up looking for new employment are included the unemployment rate rose to 17% in September.

The October unemployment rate is expected to rise 0.1% to 9.9% with nfp expected at -175k. This would be the best reading for nfp since August 2008. The historical pattern has been that hiring tends to lag after the start of the recovery. In recent years the lag time for jobs recovery post recession has been getting worse with jobs growth resuming five months after the end of the 1982 recession, jobs growth rising a year after the 1991 recession and taking two and half years following the 2001 recession. It appears that employers are becoming much more cautious about hiring after recessions technically end. This is one of the downsides of the flexibility of the US labor market which allows employers to quickly adjust employment levels to the shifts in economic growth. The Obama administration says that US employment is expected to rise in the months ahead and job creation will lag the recovery. The October employment report is expected to confirm that despite the fact the US economy is emerging from recession the economy is unlikely to experience significant improvement in employment in the near future. Tuesday J & J announced plans to lay off 8,200k and today Microsoft announced plans to layoff an additional 800 employees. The impact of the October unemployment report will depend on how US equity markets trade. Because the USD has emerged as the global funding currency US price direction has become even more closely correlated to risk appetite and the direction of equities. The USD experienced a sharp selloff after the release of stronger than expected US GDP as equity markets rallied in reaction to the report. The opposite reaction may emerge if US job losses fail to meet or beat expectations.

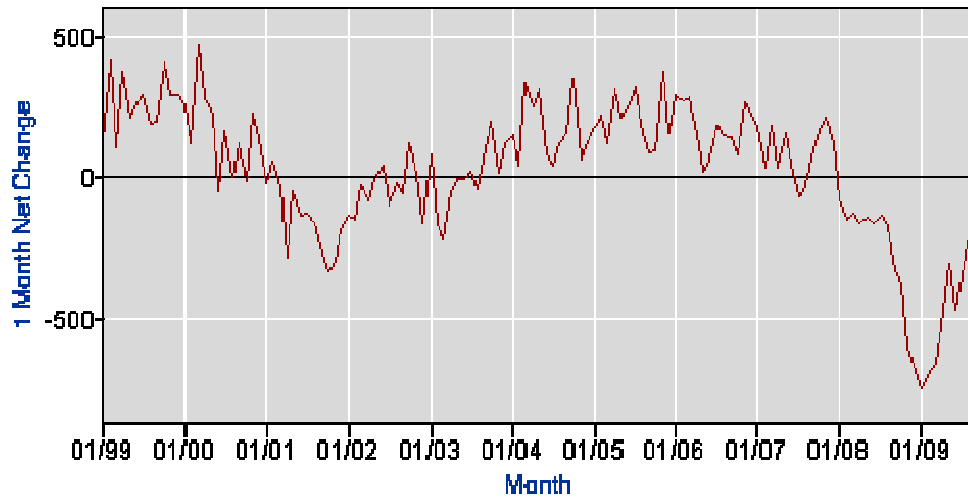


Figure 1 US non farm payrolls

Source BLS

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