



The Employment Situation – A Market Mover

The release of economic data in the United States usually has some impact on the stock markets. In general, the various pieces of economic data that are frequently released give an idea of how the US economy is doing as a whole. For stocks, the assumption is that strong economic growth would translate into strong corporate profits and this would lead to increased stock prices. So generally, if the indicator points to an economic downswing then there is likely to be a downward movement in stock prices and if there is an indication of an upswing then prices are likely to rise. Just before certain pieces of data are released there is a palpable buzz as analysts and traders attempt to predict how that indicator will move. These headline grabbers are referred to as “market-movers”. One such market-mover – even referred to as the “mother of all market movers” – is the Employment Situation report.

The Employment Situation report, also known as the Labor Report, is released by the Bureau of Labor Statistics (BLS) on the first Friday of the month. It is a compilation of a set of labor statistics borne out of two surveys. The “establishment survey” has a data sample that is both deep and wide covering more than 400,000 businesses spanning over 500 industries in hundreds of metropolitan areas. Final statistics from this survey include non-farm payrolls (number of paid employees working full-time or part-time in corporate and government establishments), average work-week (the number of hours worked in the non-farm sector) and average hourly earnings (the basic hourly rate for major industries as indicated in non-farm payrolls). The other survey is the “household survey” which covers more than 60,000 households. The final statistic from this survey is the unemployment rate based on the number of individuals out of work as a percentage of the labor force (the people of working age who are working or actively looking for employment).

There is an abundance of information provided in this report, which gives a good sense of the current state of the economy as well as the possible future direction. It is closely monitored by the Federal Reserve (the Fed) and Wall Street. The two main pieces of data from this report that occupy the headlines are the non-farm payrolls figure and the unemployment rate.

The non-farm payrolls figure is considered a coincident indicator. A coincident indicator is an economic indicator that varies directly with the business cycle and therefore indicates the current state of the economy. There is some consensus among economists that 150,000 is the level that defines economic growth. The decrease therefore by 240,000 in October 2008 reflects current contraction in the US economy. The unemployment rate is deemed a lagging indicator as it changes after the economy has already started along a particular trend. Lagging indicators tend to confirm thoughts on the state of the economy. In October 2008, the unemployment rate rose to 6.5 percent (the highest level since 1994) from 6.1 percent in September 2008. This further confirms fears that the US is facing a recession. And so questions have now moved from “Is there a recession?” to “How long and how deep will the recession be?”

The stock markets react, sometimes quite dramatically, to the release of these figures. The line of thinking is that if the economy is doing well then companies will also be doing well and this would be reflected in share prices. The reverse is likewise true. So with declining non-farm payrolls and an increasing unemployment rate, share prices could be expected to fall. A point to note is that prior to the release of actual figures there is a consensus on what that figure might be. If the actual figure is close to the consensus this could temper the reaction and the reason for this is that investors may have already "priced in" the expected results. Another point to note is that while this is a major piece of news that the market looks toward and generally garners a strong reaction, if there is another headline grabber on the same day the market may not react as strongly to employment news; a diluting effect.

Knowledge of how the markets move with regard to the release of this data can be quite useful for making tactical trading moves on the days of release. In addition to this, because information is available for various industries, an investor can gain insight into which industries may be most affected by a contracting economy and by extension which companies may be affected. In the October 2008 report it was noted that job losses continued in manufacturing (90,000 jobs losses), construction (a reduction of 49,000 jobs), and several service-providing industries (the finance industry shed 24,000 jobs) while health care and mining continued to add jobs. This information can be quite useful in deciding what sector or specific stock to consider for purchase and possibly making lucrative investment decisions.

Data Sources: Bloomberg, United States Department of Labor – Bureau of Labor Statistics

Current Happenings in Local and International Markets:

- Guardian Holdings drags down indices
 - Republic Bank profits strong as assets grow
 - Sagicor maintains solid performance amid challenging times
 - T&T Banker: Interest rates to rise again
 - Protest shuts down Plipdeco
 - Moody's places Jamaica's ratings on review for downgrade
 - PanCaribbean introduces commercial bank with \$3 billion capital base
 - Barbados tourism industry performs below regional average
 - Europe Economy Falls Into First Recession in 15 Years
 - Hedge Funds Lost \$100 Billion in October on Investor Withdrawals
 - AIG Leads Insurance Losses as Global Tally Nears \$1 Trillion
 - Consumers cut back sharply on spending as Bernanke pledges cooperation to battle global crisis
 - Crude falling despite news of another OPEC meeting
 - China Industrial-Output Growth Is Slowest in 7 Years
 - German Economy Enters Worst Recession in 12 Years
 - China Retail Sales Rise 22%, Help to Counter Slowdown
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Table 1: Regional Market Performance (as at 13 November 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	902.67	-1.63	-9.19	-8.08	-4.66
All Trinidad	1,212.11	-2.39	-9.18	0.95	2.64
JSE Index	91,077.54	-3.26	-3.07	-15.64	-7.47
JSE Select	2,393.84	-5.54	-0.31	-18.27	-9.17
All Jamaica	88,391.06	-4.89	-0.62	-17.22	-8.61
BSE Composite	995.41	-0.31	-3.53	-3.25	-2.58

Table 2: International Market Performance (as at 13 November 2008)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	911.29	0.71	-9.18	-37.94	-41.60
Nasdaq Composite	1,596.70	-0.75	-13.42	-39.80	-43.02
Dow Jones Industrial	8,835.25	1.60	-5.88	-33.39	-37.28
German Dax	4,649.52	-3.41	-8.16	-42.37	-42.18
FTSE 100	4,169.20	-2.42	-2.06	-35.43	-38.06
Nikkei 225	8,238.64	-7.42	-0.46	-46.18	-52.46
Hang Seng	13,221.35	-4.12	-18.95	-52.46	-54.15
DJ Eurostoxx	2,429.94	-4.41	-0.50	-44.77	-45.71

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