

Employment Release Spurs Market Rally

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Last Friday, the Department of Labor reported that employment grew for the first time since January, increasing by 57,000. This statistically insignificant number exceeded the consensus estimates of decreases of from 25,000 to 30,000 jobs. This increase in employment was the excuse used to attract more speculators into the stock market as if this number was a prelude to significant employment gains in the future. Please refer to the attached chart to see for yourself if you think the employment situation looks strong or weak. Notice the long-term chart-- where you have to go back to the early 1980s (worst post war recession) to observe contraction in the employment similar to the current environment. Most pundits still believe we just experienced one of the shallowest recessions in history.

The increase in employment was driven by stronger hiring in services, construction, retail trade establishments, and temporary help companies. This was not the only good news. The month of August was revised to show that net employment declined by 41,000 and not the original 93,000. We are trying not to take a pessimistic attitude toward every economic indicator that is released, but we are also attempting to be as realistic as possible, and numbers like these, in our opinion, shouldn't be a reason to plow back into the stock market.

Other parts of the release showed that the unemployment rate was unchanged at 6.1% and the median duration of unemployment rose to 10.1 weeks, while the share of unemployed workers who have been out of work more than 27 weeks rose to 23.2%, matching the peak reached in 1992. Many of the long-time unemployed have dropped out altogether and are not counted as the unemployed. The labor force participation ratio peaked at 67.4% in early 2000. It is now 66.2% and if labor force participation had not declined, the unemployment rate would currently be 7.8% (equal to the peak during the recession of the early 1990s).

Average hourly earnings fell by one cent, to \$15.45. This is the first time that nominal earnings fell since 1989. This amount of decline is also what we would consider insignificant, but given the low inflation and weak bargaining power on the part of workers seeking employment, it should not be a surprise. If the trend continues, it holds implications for consumer spending in the future. Another part of the release that was not encouraging was the fact that hiring plans remain very weak and help wanted advertising has barely lifted from the trough reached in May. The last thing in the release that is now becoming a regular occurrence was the downward revisions over the past year. According to The Dismal Scientist website, the level of employment is expected to be revised down by 145,000 for the past year. These constant downward revisions are due to the fact that the government adds every month some 30,000 to 50,000 imaginary workers to the job total. It is based on the assumption that in an economic recovery there are many new business that should be started. In normal recoveries, they have done so, indeed.

There has been a lot of controversy about whether the household survey, which is used to determine the unemployment rate is more reliable than the payroll survey used to determine the number of employed. Larry Kudlow brings up the subject every time he gets a chance and is convinced that the household survey, which shows an increase in jobs is much superior and leads the payroll survey. Somehow, as he was breaking out the champagne and balloons this time he forgot to mention that the household employment survey actually fell in September. We have said in these comments previously that household employment is not as significant as the payroll survey because of the much larger sample of the payroll survey and the fact that the response from households is more likely to find people who just might fudge the

response rather than declare themselves unemployed. Even the labor commissioner, Elaine Chou, considers the payroll survey to be more reliable and has conceded the focus should be on the payroll survey. Now, that the household survey showed better numbers for the current year, she is more ambiguous on the subject.

It is clear that we need between 170,000 to 200,000 of job growth per month to absorb the new people entering the labor force, and 300,000 new additions to the job roles per month to stop the ascent of the unemployment rate and get it down to around 5%. Since the recession ended in November 2001 we have lost about 1 million jobs, or about 8%. In not one of the eight postwar recoveries has there been ANY employment decline. We will also attach the same NDR charts we've shown many times in these comments depicting the immediate strong job growth in all of these past recoveries. On average, payroll jobs increased 3.8% in the 20 months following the end of recession.

You may not believe this, but honestly, we are not trying to shoot holes in every economic release, but if the numbers are looked at closely enough, it is clear that they are not as encouraging as they seem.

- [Employment \(Last 5 Years\)](#)
- [Employment \(Long-Term Chart\)](#)
- [Current Employment vs. Average of Last 5 Expansions](#)

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