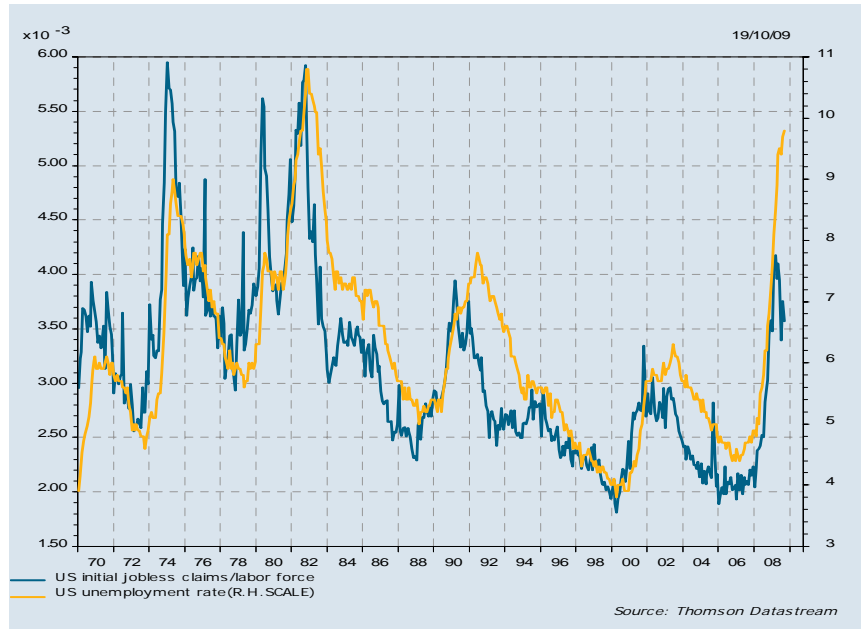


The Employment Issue

Jobless claims and unemployment Rate

The initial jobless claims' figures released on a weekly basis by the US Department of Labor reflect the national, seasonally adjusted number of initial claims for unemployment benefits made by insured workers during the preceding week. This indicator is very close to the labour market's situation in real time: according to the trend provided by the initial claims data (generally observed over a four-week rolling average owing to the figures' high degree of volatility) and its level in absolute terms, it is possible to determine whether employers overall are rather hiring or firing, and at what rate. The steady fall in jobless claims over the past several weeks indicates that the rate of layoffs' in the US has slowed; yet the current level of claims (slightly above 500'000 per week) remains too high to indicate a return to net job creations (which would require a claims level of less than 450'000).

The US unemployment rate is, for its part, published on a monthly basis by the US Bureau of Statistics. It is calculated on the basis of a survey conducted around mid-month with 60'000 US households. The responses to the survey are used to infer the size of the country's active population and the number of persons aged more than 16 who are in search of employment.



As signs of a global recovery multiply, the outlook for employment remains grim, notably in the United States, where the rate of unemployment has doubled in two years, seemingly close to crossing the symbolic threshold of 10%, not overtaken since the early 1980's. This high level and persistently negative trend has motivated the most pessimistic forecasters to predict the US economy's imminent relapse into a recession and more generally developed countries. As far as we are concerned, our worries regarding the economic outlook are significant, but not to the point of painting the devil on the wall. Obviously, employment is the lynchpin of sustained economic recovery: any improvement on that front will directly benefit household spending and the real-estate market, with many other indirect, yet positive implications for the economy as well as public finances (another major worry for the future).

This discrepancy between the first signs of economic recovery and a deteriorating labour market is not that surprising to the seasoned macroeconomist: indeed, employment is considered to be a "delayed" variable in the cycle (trend reversals taking place downstream). In addition, we deem that an imminent relapse into recession (i.e. within the coming 12 months) is highly improbable: most of the adjustments are now behind us and expansionary measures, be they fiscal, budgetary or monetary in nature, will keep deploying their positive effects over the coming quarters. In other terms, this allows a reasonable time span for the employment market to show some improvement, enabling the economy to avoid a stagnation scenario, or worse.

This graph, which shows the correlation between the US unemployment rate and the ratio of unemployment benefit claims to the country's active population, fuels our flicker of hope. Indeed the early stages of ebbing jobless claims are a positive sign as, historically, falling jobless claims precede a drop in unemployment by a few months. We therefore have good reasons to believe that the employment issue will not be the reason for the stalling of the US recovery.

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