



The jobs market continues to show weakness as nonfarm payrolls increased just 18,000 in June after rising 25,000 in May and 217,000 in April. The chart below documents the sharp drop in nonfarm payrolls starting in 2008 followed by eventual increases in 2010 with census hiring and the economic ‘recovery’. With a U.S. civilian labor force of 153.4 million at the end of June, 14.1 million people who were actively looking for work could not find work such that the official unemployment rate was 9.2%. However, these figures reflect a labor participation rate of 64.1% (labor force as a fraction of the civilian non-institutional population), which is low by historical standards. If the labor participation rate equaled 65.7%, the rate for June 2009 when the federal stimulus plan was implemented, another 3.9 million persons would be employed. The 9.2% unemployment rate is artificially low because many individuals have stopped looking for work.

UNITED STATES NON-FARM PAYROLLS



source: TradingEconomics.com; Bureau of Labor Statistics

Importantly, the unemployment rate differs greatly for various groups. Consider the unemployment rates based on education and age.

Education		Age	
College Degree or More	4.4%	Women: 20+ Yrs	8.0%
Assoc. Degree or Some College	8.4%	Men: 20+ Yrs	9.1%
High School Degree	10.0%	Teenagers: 16-19 Yrs	24.5%
Less than High School	14.3%		

Do these high unemployment rates reflect structural changes in the U.S. economy? Have employers learned that they can effectively substitute capital for labor or temporary workers for full-time workers? What is the impact of rising health care costs and uncertainty about personal and business taxes?

Breaking News

- July 8th was Sheila Bair's last day as Chairman of the FDIC. In September she will join Pew Charitable Trusts as a senior advisor on policy issues. President Obama has announced that he will nominate Martin Gruenberg as Chairman of the FDIC. Gruenberg has served as Vice Chairman of the FDIC since 2005. On July 2nd, President Obama nominated Thomas Curry as Comptroller of the Currency.
- Three banks failed last Friday bringing the total to 51 for 2011. At this time last year, 90 FDIC-insured institutions had failed. There were 157 bank failures for all of 2010 with the 2011 pace suggesting around 100 failures.
- The Federal Reserve recently increased the cap on debit card swipe fees from the originally proposed 12 cents to 21-24 cents per transaction. Moody's estimates that this change will increase bank debit interchange revenues by as much as \$3.5 billion annually.

Deal of the Day

Standard policy of the Federal Housing Administration (FHA) requires banks to allow FHA borrowers to miss at least 4 months of mortgage payments before pursuing foreclosure. On July 7th, HUD Secretary Shaun Donovan announced a new initiative which extends this time to one year for unemployed FHA borrowers. The U.S. Treasury is asking banks to follow this same timeframe under its foreclosure prevention program labeled HAMP (for Home Affordable Modification Program). HAMP was designed to use federal funds to help banks modify mortgage terms to keep people in their homes. The federal government claims that it has helped over one million families stay in their homes; critics have complained that the assistance is temporary and many loan modifications have not worked. Treasury recently stopped payments to Bank of America, JPMorgan Chase and Wells Fargo as mortgage services under HAMP claiming that they failed to properly contact borrowers and meet other terms of the program. Wells Fargo is formally disputing these actions.

Economic News

Inflation in China continues to signal difficulty for government policymakers going forward. The Chinese consumer price index rose 6.4% in June while the producer price index rose 7.1% over the previous year. On July 6th, the Chinese Central Bank increased interest rates for the fifth time since October 2010 in an attempt to slow the rapid pace of economic growth and thus slow domestic inflation. The obvious concern is how these policy changes might affect global economic activity.

Upcoming Events

- The National Federation of Independent Businesses (NFIB) releases its small business optimism index tomorrow. The index incorporates the responses regarding plans to increase employment, inventories and capital spending, and whether they expect sales and the overall economy to improve. It is an indicator of potential hiring and changes in small business loan demand.
- Alcoa announces second quarter earnings after the closing bell on Monday. Given the surprisingly weak nonfarm payrolls report, market participants will review top line and bottom line earnings data to better assess the strength of the U.S. and global economy.