

US WEEKLY ECONOMIC UPDATE



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Joseph G. Carson

US Economist and Director
Global Economic Research

US Economic and Investment Perspectives

Weaker September Job Data Doesn't Halt Improving Trend

Payroll employment rose a modest 96,000 in September, extending the string of sub-par job gains (**Display 1**). Civilian unemployment meanwhile remained at 5.4%, the low point for the year and the business cycle (**Display 2**). The Labor Department indicated that severe weather appears to have retarded job creation, but not enough to “change materially” their estimate of the employment situation for the month.

Even so, it's too early to conclude with any certainty the impact from the series of hurricanes that hit the southern part of the US between mid-August and mid-September. In September 1999, when Hurricane Floyd hit the southern part of the US, the Bureau of Labor Statistics (BLS) made no official estimate of the impact. But it did indicate that weather-related disruptions may have contributed to employment declines or below-average growth in a number of industries. The initial estimate on the September 1999 payroll was a negative 8,000, and it now stands at plus 187,000.

Unpublished reports from the household survey indicate that as many as 150,000 to 200,000 jobs could have been temporarily lost last month. This data shows that as a result of bad weather, 205,000 people reported they couldn't work in September, up from 28,000 a year ago, and that 1.9 million full-time workers had to work part time, up from only 250,000 a year ago. Clearly, there is a huge weather effect in the data, but it will take several months to ascertain its full impact.

While the size and scope of new-job creation is very important, what matters most for wage and salary income growth are trends in hours and wages. Every 0.1 hour increase in the average workweek creates as much wage and salary income as the hiring of 350,000 workers, while every 0.1 cent increase in the average wage equates to another 100,000

workers. Importantly, in the third quarter companies lengthened the workweek and raised the average pay of their workers. In fact, the 3.3% annualized gain in hours worked was the fastest in seven years, while average hourly earnings rose 3.1%, the best gain since 2002. All this points to a relatively strong increase in wage and salary income in the quarter, estimated to be up around 5.5% in the third quarter—more than enough to support the ongoing gains in consumer spending.

Although income and spending trends held up in the third quarter, investors nonetheless remained worried that the consumer-spending cycle is at risk without adequate new job creation. But if companies were in fact planning to stop hiring, they would not be extending hours and increasing wages—let alone listing ever more job openings. To be sure, a longer workweek is historically a harbinger of more jobs because companies tend to lengthen the hours of existing employees before hiring new ones.

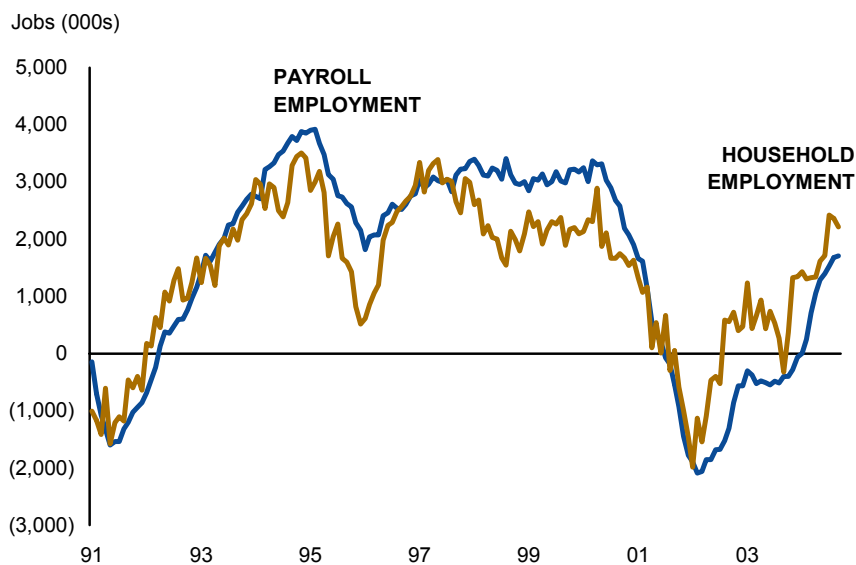
Hiring intentions of companies are also on the rise. Many Internet job websites have seen dramatic increases in postings in the past several months. The Monster.com worldwide job index hit a new high in September, with increases across the country and in most occupations. Representatives of Monster.com told a recent analyst's conference that their customers reported they do not have enough people on the ground and haven't replaced enough of those let go in the past recession. On all sides—from job postings to the hiring intentions of companies big and small—it appears job growth will improve in coming months, although none of this potential good news will emerge before the November 2 US elections.

*Joseph G. Carson
Global Economic Research
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Display 1: Employment Trends Are Improving Payroll and Household Employment (Year-over-Year Change)



Source: Bureau of Labor Statistics and Haver Analytics, October 8, 2004

Household and payroll employment have recovered in the past year, although the pace of improvement is not up to the levels of the late 1990s.

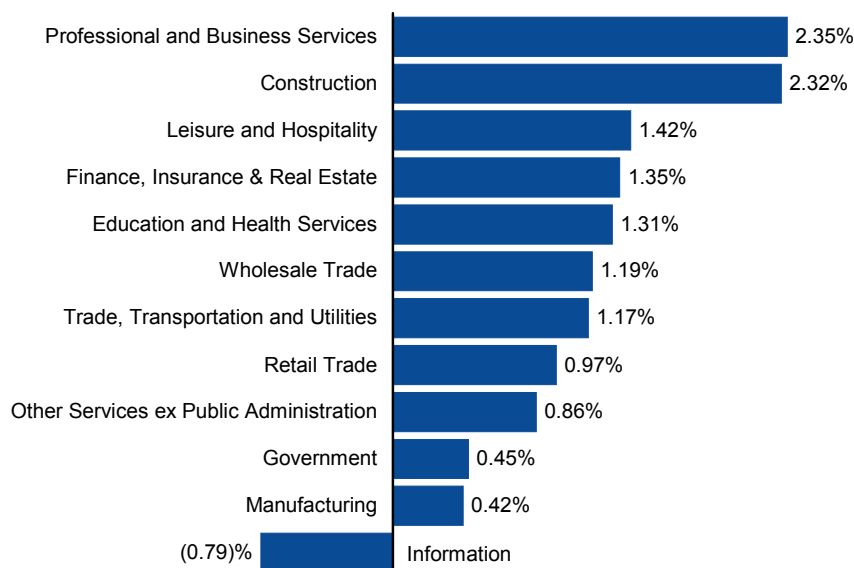
Display 2: Nation's Jobless Rate Is Trending Lower Unemployment Rate



Source: Bureau of Labor Statistics and Haver Analytics, October 8, 2004

Good news—the civilian unemployment rate stayed at 5.4% in September, the low of the year, and is off about 1 percentage point from the high of 2003.

Display 3: Where the Jobs Are Increase/(Decrease) in New Jobs Since December 2003



As of September 30, 2004

Source: Bureau of Labor Statistics, Haver Analytics and Alliance Fixed Income, October 8, 2004

Since the start of the year, most industries are adding jobs. The exception is the information industry—i.e., telecommunications, publishing, motion pictures—where about 25,000 jobs have been lost.