

US WEEKLY ECONOMIC UPDATE



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US Economic and Investment Perspectives

Weak US Dollar is Changing Hiring Patterns

Ordinarily, when manufacturing firms are adding jobs in the US, their counterparts or affiliates in Canada do, too. That's not true today (**Display 1**). In the past six months, manufacturing payroll jobs in the US have increased by 100,000 for the biggest gain since 1998; in Canada, about 20,000 jobs were lost in the same period. Moreover, the Manpower survey for the fourth quarter this year shows that the hiring intentions of US durable and non-durable manufacturing firms have risen sharply and now stand well above their counterparts in Canada.

The change in hiring patterns and future staffing needs suggest that the US dollar's fall is finally beginning to influence where firms hire, produce and ultimately invest. Although most of the evidence to date related to the US and Canada, and presumably between US firms and their affiliates in Canada, we expect this shift to involve other countries in coming months, as well. To catch hold globally, however, the dollar needs to remain weak or decline further against most major currencies.

The increase in manufacturing jobs in the US and decline in Canada suggest that a significant change in hiring patterns is already under way. Manufacturing jobs in Canada usually increase when US manufacturing jobs are on the rise, and in recent years factory jobs in Canada were created even when the US factory jobs were being slashed.

The relatively strong Canadian jobs market in the recent past coincided with a relatively weak Canadian dollar. From 1995 to 2002, the Canadian dollar fell about 20% in value against the US dollar, hitting its weakest level ever. Over the past two years, the Canadian dollar recouped all that it lost in the seven-year period and now stands at levels last seen in 1993.

While it's difficult to quantify how big a role the sudden shift in exchange rates is playing in hiring patterns for both countries, we believe it's

significant because data on future hiring intentions indicate it will continue.

According to the fourth-quarter hiring survey of Manpower Inc., the net hiring intentions of US manufacturing firms remain strong and above the national average. Overall hiring plans have remained at 20% for the fourth quarter, matching the levels of the prior two quarters. But planned staffing at durable and non-durable manufacturing firms rose again in the fourth quarter, following a modest gain in the third quarter. Moreover, the 23% net hiring intentions of durable manufacturers and 22% at non-durable manufacturers exceed the levels of all other sectors Manpower tracks. The last time the manufacturing sector had relatively strong hiring plans that were above the national average was in 2000.

US Is Gaining Ground

Importantly, the hiring plans of both US durable and non-durable manufacturing firms have moved above their counterparts in Canada for the first time in several years (**Display 2**). The gap is somewhat bigger in durable manufacturing, but even among non-durable firms, hiring plans are up and higher than those in Canada for the first time since 2000. Manpower has been collecting industry data on hiring intentions in Canada since 1978, but the figures are not adjusted for seasonal variations. So for comparison purposes we used a four-quarter moving average of the not-seasonally adjusted data for both the US and Canada.

Canada is by far the biggest trading partner of the US, and many of the manufacturing firms operating in Canada are affiliates of US companies. Collectively, the increase in manufacturing jobs in the US and the decline in Canada, along with the relative improvement in US hiring patterns relative to that of Canada, tells us firms are responding to the shift in exchange rates. This is only the first hint of a behavior shift on the part of business, and we expect to see more in coming months.

Europe is the next area of the world that could see some shift in sourcing/assembly operations. In the past two and half years, the euro has increased 40% in value against the dollar. That creates a huge cost disadvantage of operating in Europe, especially given that labor productivity gains in Europe also trail far behind that of the US. The fourth-quarter Manpower survey showed very weak hiring intentions in Europe, especially in Germany and Italy. It would not be surprising to see some US

firms bring home sourcing/assembly operations that were shifted toward Europe when the dollar was strong and the Euro was very weak. The global shift toward Asia will be harder to reverse. But given the combination of a competitive dollar and strong productivity, the US should attract more production, hiring and investment over time.

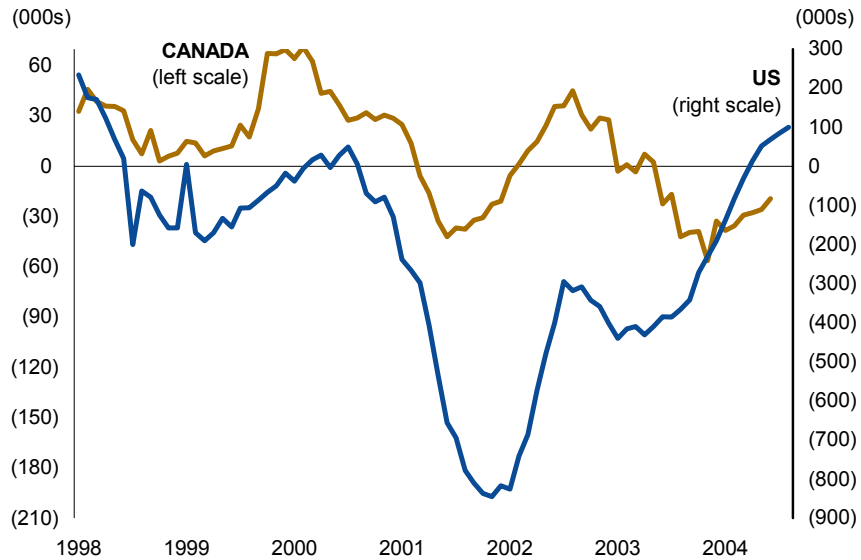
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Display 1: Reversal of Fortune

Manufacturing Employment in North America (Six-Month Change)

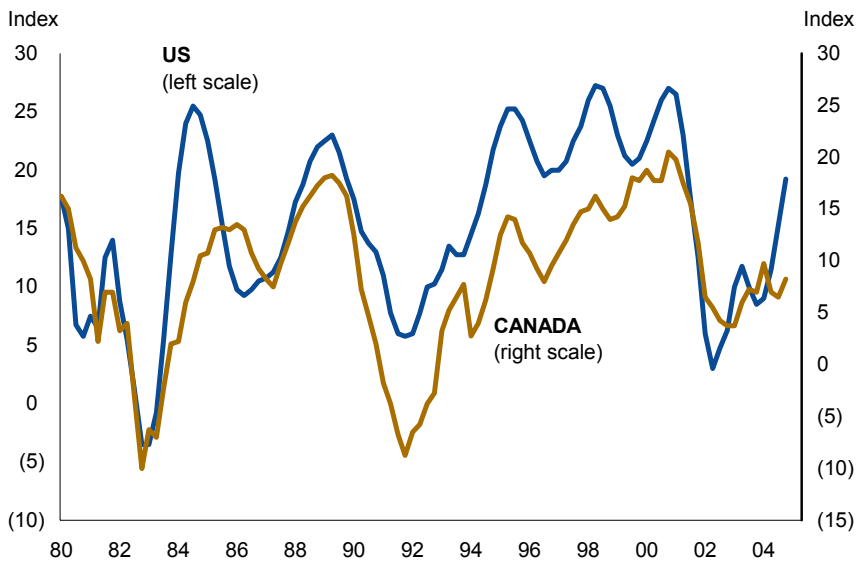


Source: US Bureau of Labor Statistics, Statistics Canada and Haver Analytics, September 17, 2004

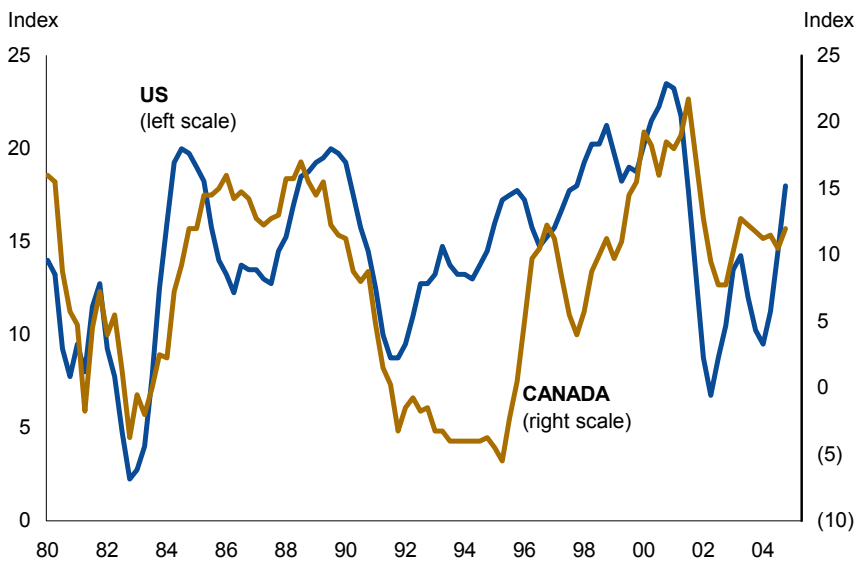
For the first time in several years, manufacturing jobs are growing in the US, but not in Canada. The sharp adjustment in the exchange rate has undoubtedly played a role in this trend-shift in hiring patterns.

Display 2: US Firms Expect to Hire More Than Canadian Firms
Hiring Intentions in the North American Manufacturing Sector

Durable Manufacturing



Nondurable Manufacturing



The Manpower survey shows that staffing needs at US durable and non-durable goods manufacturing firms are rising more than their counterparts in Canada. The last time US firms expected to hire more than their Canadian counterparts was four years ago.

Source: Manpower Inc. and Haver Analytics, September 17, 2004