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DECISION ECONOMICS, INC.
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New York: 212 884 9440
London: 011 44 20 7814 6706
Boston: 617 994 0500
Email: decisioneconomics@pdeeco.com

Pierre Ellis

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Employment: Back to "normal?"

July payroll employment surprises to the upside, rising 117,000 (Consensus:+90,000; Decision Economics: +95,000), with private-sector employment up 154,000. Upward revisions to the private sector total were 23,000 in June (+80,000 vs +57,000) and 26,000 in May (+99,000 vs +73,000).

The general tone of the report is of mild revival, and return to near "normalcy," after the pause of the previous two months. Income, in particular, rebounds, with July likely to show a 0.5%+ rise in wages and salaries.

Hours worked are lagging on a quarter-to-quarter basis, looking roughly flat for the moment--but this need not constrict GDP growth severely, since hours clearly rose "excessively" in Q1 and Q2 (something that should be evident in very weak productivity numbers next week) and more efficient use of labor time this quarter is most likely.

The big issue, of course, is whether this "green shoot" of improvement will be crushed by the current financial turmoil--and the effect it will have in shaking already fragile confidence. Europe will not go away as a problem for markets--and potentially for company access to bank and CP credit--and the question will be whether the Fed and bolstered corporate balance sheets will provide enough insulation against that threat. Hopefully, they will.

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