

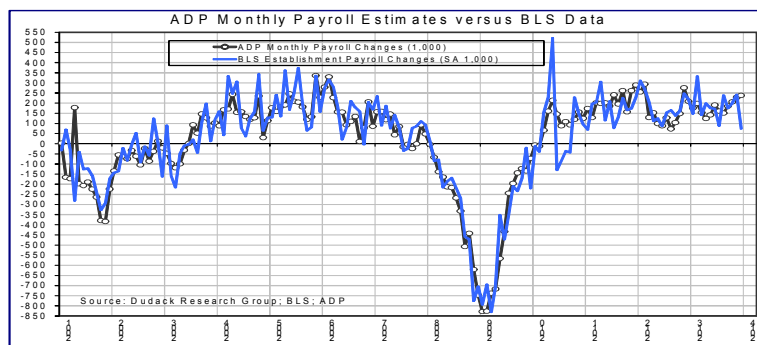
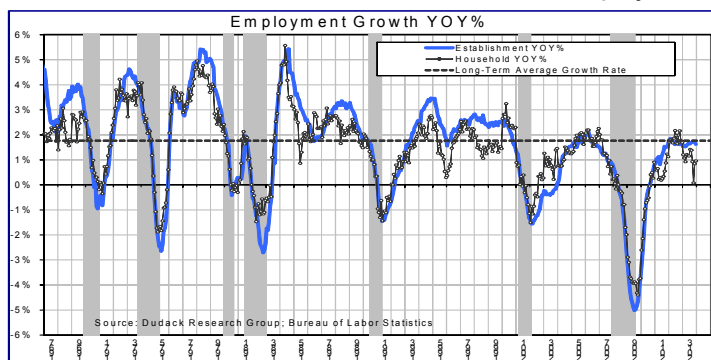


# Direct From Dudack A Thud of a Report

The December employment report showed that a mere 74,000 new jobs were added in the month, well below the consensus expectation of 200,000+ new jobs. Revisions to prior months added 38,000 jobs, implying the total jobs added in this release was 112,000; nonetheless, this total fell far short of the 182,000 monthly average seen throughout 2013. The average hourly work week also edged lower by a fraction in December, but average hourly earnings for all employees rose 2 cents to \$24.17.

This is a confusing mix of data since the ADP release earlier this week implied a much stronger number for December, while BLS household data has been showing an underlying weakness to the job market for several months. The drop in the unemployment rate from 7% to 6.7% came mostly from a 490,000 decline in the number of unemployed. Given that the number of unemployed falls as unemployment benefits cease, this is not reassuring. See the table and chart of these underlying statistics on page 2. One indicator that continues to improve is the Misery Index – the sum of the unemployment rate and the rate of inflation. This shows a steadily improving environment for consumers. See page 3.

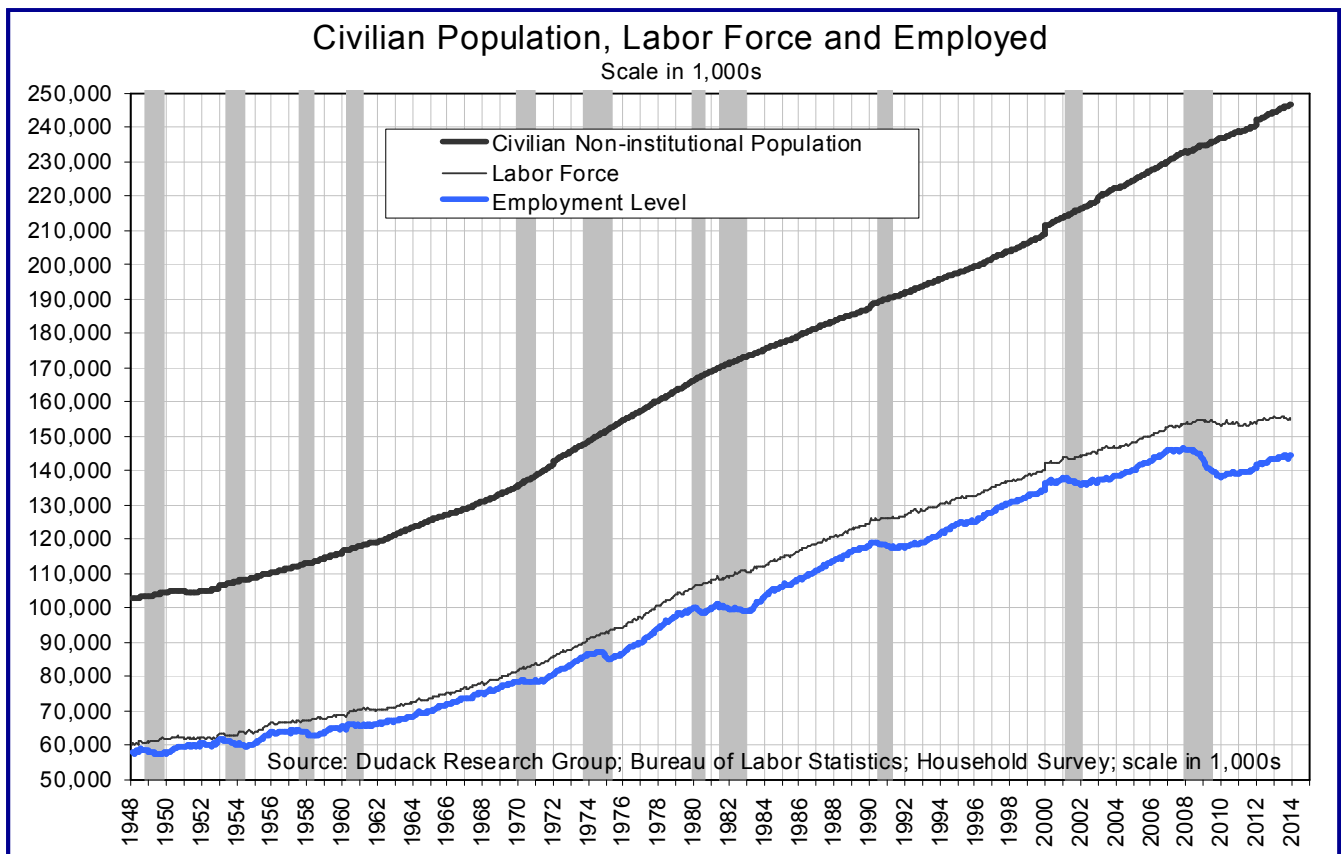
We do not believe one month of data will delay or change the FRB’s decision to taper. But we will be watching consumer confidence to see how December’s weak payroll could impact consumption.



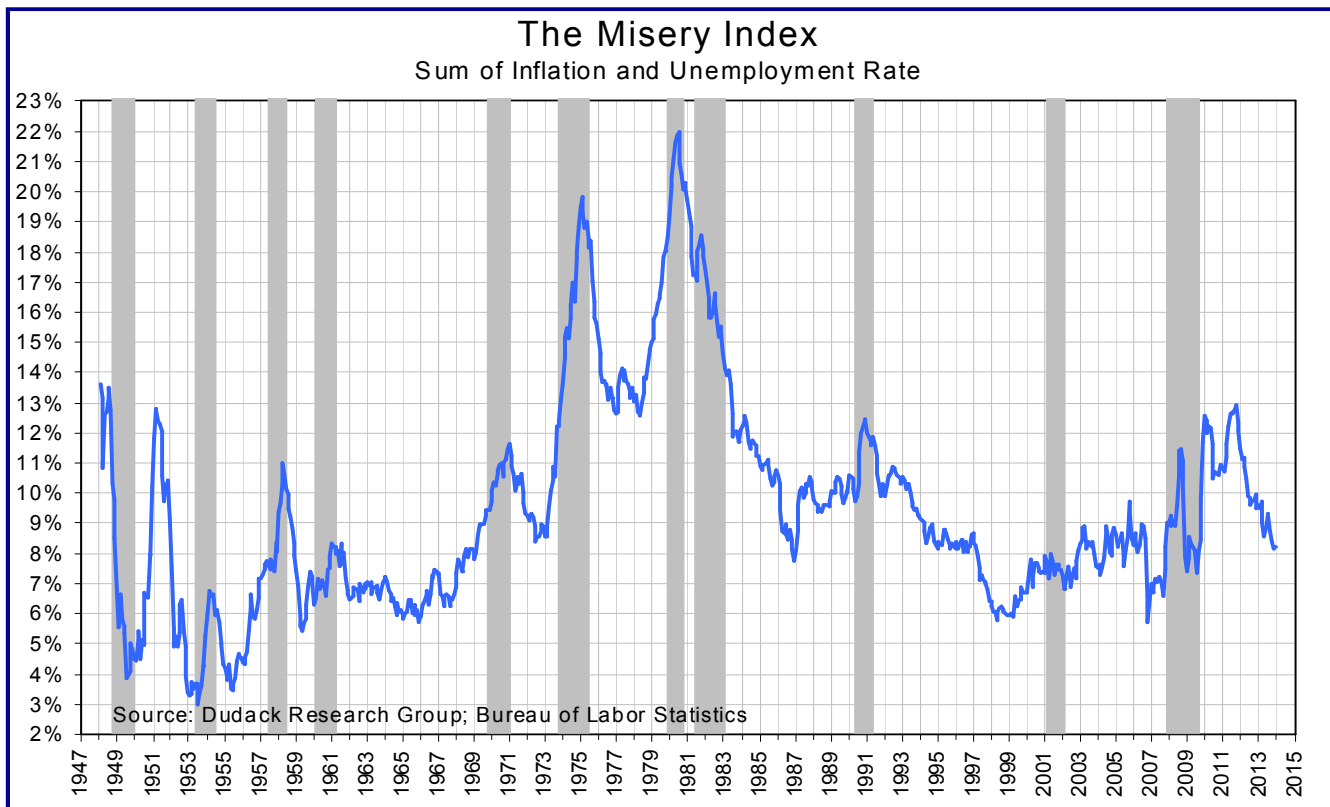
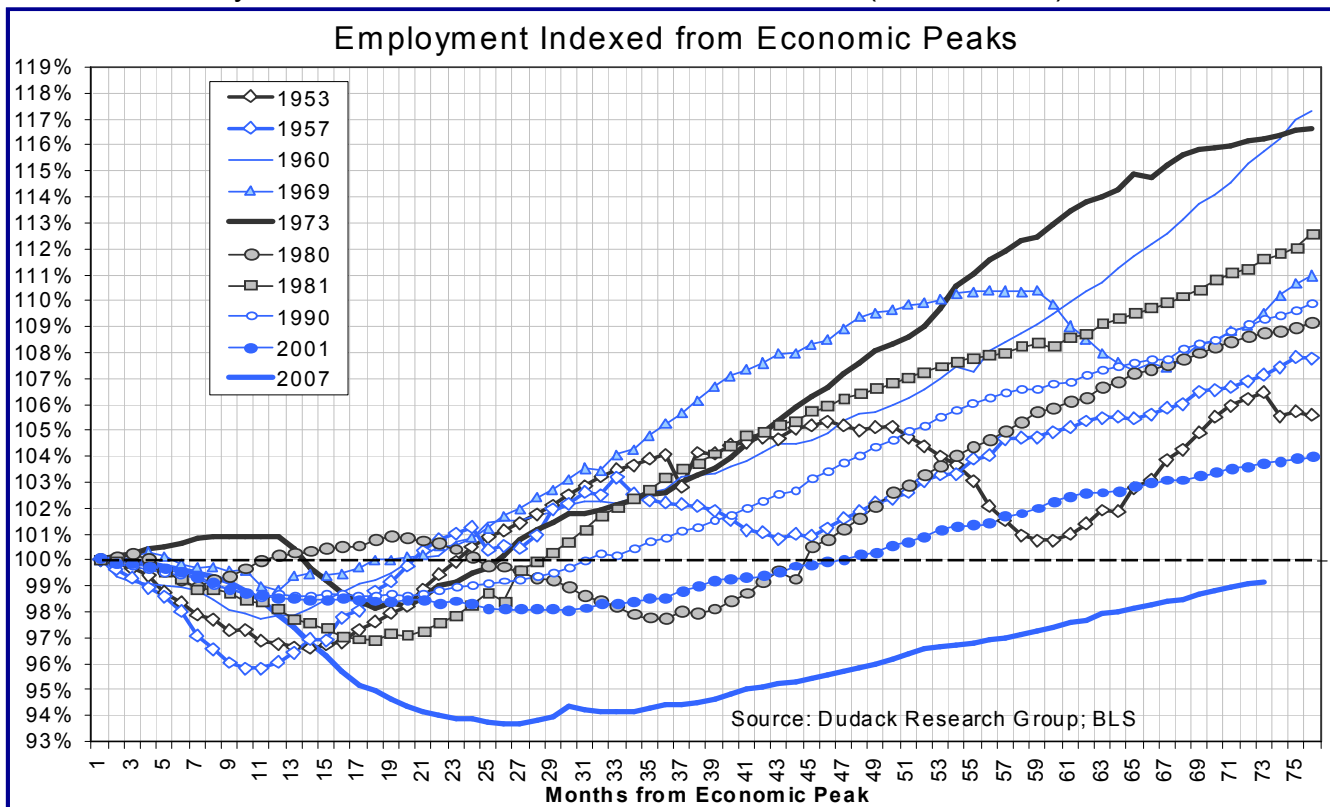
Note that the decline in the unemployment rate comes from the fact that in the household survey, 490,000 people were no longer considered “unemployed” and 143,000 more people were employed. The U6 unemployment rate was unchanged at 13.1% in December.

Employment Surveys (1,000s SA)	Dec-13	Nov-13	Change
<b>Establishment Survey: NonFarm Payrolls</b>	136,877	136,803	74
<b>Household Survey Data (1,000s)</b>			
Employed (A)	144,586	144,443	143
Unemployed (B)	10,351	10,841	-490
Civilian labor force [A+B]	154,937	155,284	-347
Unemployment rate [B/(A+B)]	6.7%	7.0%	-0.30%
U6 Unemployment rate	13.1%	13.1%	0.00%
Civilian noninstitutional population (C)	246,745	246,567	178
Participation rate [(A+B)/C]	62.8%	63.0%	-0.19%
Employment-population ratio [A/C]	58.6%	58.6%	0.02%
Not in labor force	92,338	91,521	817

Source: Bureau of Labor Statistics



Employment remains below 1.1 million below the 2007 peak (top chart), but the low level of inflation leaves the misery index at 8.2%, a low and comfortable level (bottom chart).



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Dudack Research Group a division of Wellington Shields & Co. LLC.  
250 Park Avenue; 7<sup>th</sup> Floor  
New York, NY 10177  
212-572-6207

Wellington Shields & Co. LLC  
140 Broadway  
New York, NY 10005  
212-320-3511