



Weekly Economic Commentary



January 12, 2009

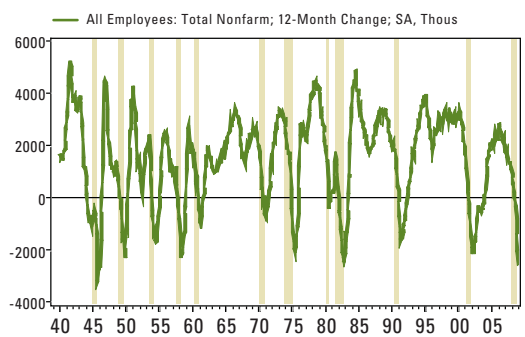
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ECONOMIC CALENDAR

Tuesday, Jan 13	Core PPI
Trade Balance	December
November	PPI
Treasury Statement	December
December	Philly Fed Index
Wednesday, Jan 14	January
Import Price Index	Friday, Jan 16
December	Core CPI
Retail Sales X-Autos	December
December	CPI
Retail Sales	December
December	Capacity Utilization
Business Inventories	December
November	Industrial Production
Thursday, Jan 15	December
NY Fed Empire State Mfg	U of Mich
January	Consumer Sentiment
Initial Claims	January
wk 01/10	

1 Nonfarm Payrolls Shrank by 524,000 in Dec, the Worst Year for the Labor Market Since 1945



Executive Summary: Is the “Free Pass” Over?

There was a distinct shift this past week in the interaction between the economic data and financial markets. Since roughly the latter half of November 2008, the financial markets all but shrugged off bad (or worse than expected) news on the economy in the fourth quarter of 2008, and generally rallied on the better than expected economic data. This past week, financial markets refused to continue to “whistle past the graveyard” and reacted negatively to both good and bad news on the economy in Q4. The week was capped off by the markets’ negative reaction to the about-as-expected December 2008 jobs report. Has the markets’ “free pass” for the economy in Q4 expired?

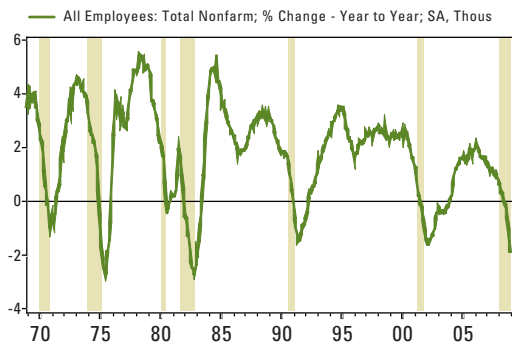
If indeed the markets will begin reacting to poor data for the recently completed fourth quarter of 2008, this week may be another difficult one for markets, with data due out for December 2008 on merchandise trade, retail sales, industrial production, and capacity utilization. All of this data—along with the December reports on consumer and producer prices—is expected to show that the U.S. economy continued to decelerate to the downside as Q4 ended. Should the market choose to return to its more typical, forward looking posture, there is plenty of data due out this week for January, including the weekly jobless claims data for the week ending January 10, the Philly Fed and Empire State manufacturing indexes for January, and the preliminary University of Michigan Consumer Sentiment Index for January.

As we wrote last week, with the turn of the calendar to the new year, markets will want to see some signs of improvement—or at least a slowing in the pace of decline—in the U.S. economy in January and in the first quarter of 2009.

The key event for markets last week was the release of the December jobs report, which revealed that the economy shed another 524,000 jobs in December, bringing the total job loss for 2008 to 2.6 million, 1.9 million of which came over the final four months of the year. By this measure, it was the worst performance for the labor market since 1945, when the end of World War II shuttered wartime defense plants and sent millions to the unemployment lines. Although the 524,000 decline in jobs in December did match economists’ expectations heading into the release of the report last Friday, by almost every measure the December jobs report was a complete disaster. Just about the only positive in the report was the fact that the decline in jobs in December (524,000) was less severe than the 584,000 drop in November. Aside from that statistical glimmer of hope, there was little else in the report to cheer about.

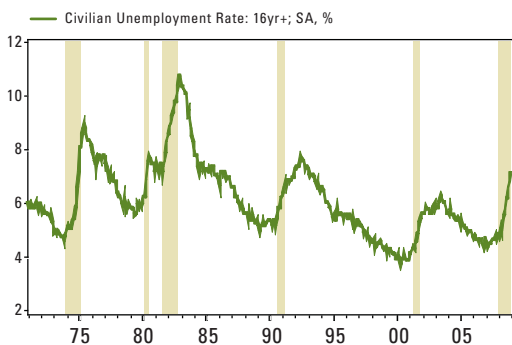


2 Nonfarm Employment Fell 1.9% in December, the Largest Drop Since the Severe 1981-82 Recession



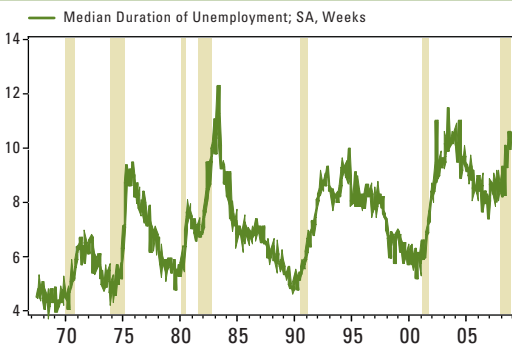
Source: Bureau of Labor Statistics / Haver Analytics 01/12/09

3 The Unemployment Rate Rose to 7.2% in December, the Highest Since 1993



Source: Bureau of Labor Statistics / Haver Analytics 01/12/09

4 The Median Duration of Unemployment Rose to 10.6 Weeks in December, and is Poised to Move Higher



Source: Bureau of Labor Statistics / Haver Analytics 01/12/09

- The 1.9% drop in nonfarm payrolls over the 12 months ending in December 2008 was the largest since the severe 1981–82 recession.
- In Q4 2008, payroll jobs fell by 1.53 million, far more severe than the 597,000 job loss in Q3 2008.
- While government employment rose in December, among the industry groups within the private sector, the only group to see a gain in employment in December was the education and health sector, as overall private sector employment fell by 531,000 in December.
- Often considered a good leading indicator of future employment, the temporary help category posted another decline in December, as payrolls fell here by 81,000, on the heels of an 86,000 drop in November. About the only good news here was that the pace of decline was slower in December than in November.
- The unemployment rate rose by a greater than expected 0.5 percentage points to 7.2% in December, from 6.7% in November. The market was expecting a more modest 0.3 percentage point rise to 7.0%. At 7.2%, the unemployment rate is at its highest level since early 1993, when the economy was in the so called “jobless recovery” from the shallow 1990-91 recession. Since bottoming in October of 2006 at 4.4%, the unemployment rate has risen by 2.8 percentage points. The 2.8 percentage point increase in the unemployment rate over the 26 months since October 2006 is only surpassed by the severe 1973-75 and 1981-82 recessions.
- The median duration of unemployment—a good proxy for how long it takes someone who is laid off to find a new job—rose again in December to 10.6 weeks, up 0.6 weeks from November, just about equaling the highs seen in the early 2000s recession. During the severe 1981–82 recession, the median duration of unemployment rose to as high as 12.3 weeks in May 1983, just after the end of that recession.



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