



Strong job growth fails to materialize in the nonfarm payroll report while the US economy continues to power along at a noninflationary rate of growth between 4% and 4.5%. Though the bond market and economists remain watchful of pending inflationary pressures related to oil, we are more focused on the strength of the economy and continue to believe that slow and steady wins the race with respect to Fed tightening.

## Disconnect Between GDP Growth and Jobs Persists

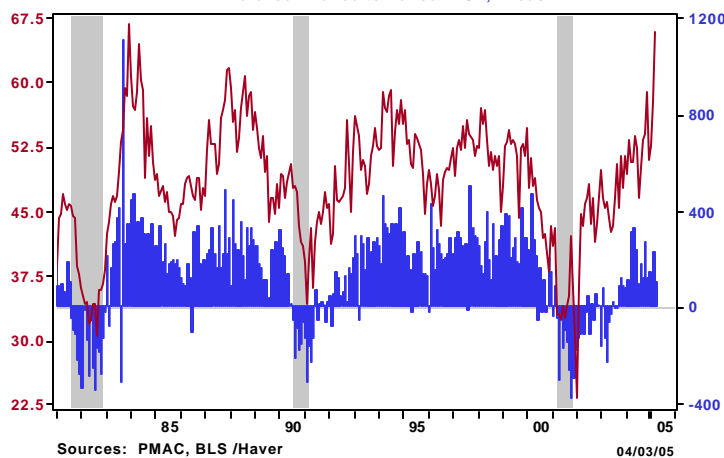
If only economic forecasting was simply a matter of looking at the past to discern patterns for the future. Alas, that is not the case. The economy is like a living, breathing organism, constantly changing shape, form, and structure. We were reminded of this truth while looking at this week's US economic data, in particular the stark contrast between the Chicago PM report and the March nonfarm payroll report. While the Chicago PM posted a strong reading of 69.2 — the highest since 1987 — the March nonfarm payroll report was released with a reading of +110,000, well below the forecast. What was impressive about the Chicago report was not just its magnitude but the various components as well. The employment component spiked to 66.6 from 57.7, and while this increase was outsized and obviously unusual, the more important fact is that new orders,

production, and inventories were all strong. The March ISM showed little of the robustness of the Chicago report (sometimes there is a lag of one month). In the past there has usually been a descent correlation between the Chicago PM and ISM employment component and US nonfarm payrolls. That is no longer the case. A look at the accompanying charts reveals that in the past, when the index moved above a reading of 60 on a sustainable basis (as it is doing right now), nonfarm payroll growth averaged 300,000–400,000 per month. It all seems like a bad joke. The Midwest economy, along with the US economy in general, are both very strong according to these private-sector manufacturing indices, but strength is nowhere to be found in the reported Labor Department statistics, nor do we believe it will be found.

March nonfarm payrolls were lower than expected for two main reasons: Manufacturing jobs fell 8,000 while total service jobs were up only 86,000, the lowest amount of new job creation since last July. Financial services jobs — usually up steadily from month to month — were up only 2,000 in March, while retail trade jobs fell 10,000 for the first time since last fall. Many analysts were quick to jump on this decline as evidence of a pending slowdown in US consumer spending rather than an anomaly of data flow. Rather than overreacting to this data, we see it as a bump in the road to average nonfarm payroll growth of 150,000–200,000 this year. We continue to believe (as we have since 2003–2004) that strength in the payroll data will not return, and instead job growth at small and medium companies covered in the household survey will continue to drive the stats.

Chicago Purchasing Mgrs Assn: Index, Employment  
SA, 50+ = Econ Growth

All Employees: Total Nonfarm  
Difference - Period to Period SA, Thous

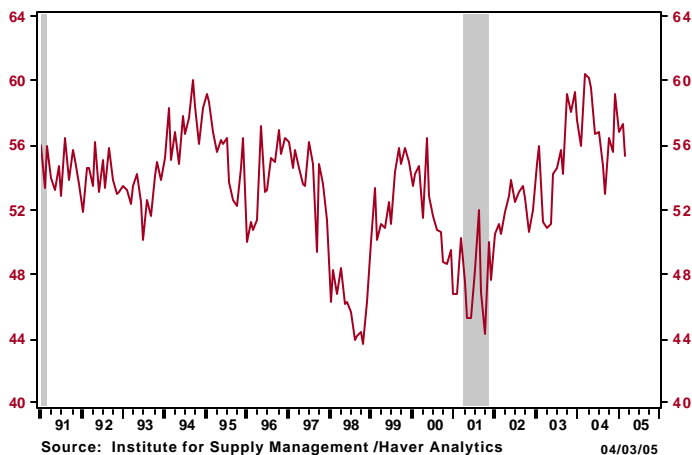


The structure of the US economy has changed permanently as a result of the latest business cycle downturn and the rise of cheaper locations to make the goods that US consumers demand. The viciousness of that reality made itself evident in the Friday report. While many business economists talked about the impending inflationary pressures arising from an overly robust economy and the signs of business slowdown being right around the corner with the latest lackluster employment report, we know that the reality is quite a bit different. The US economy continues to be strong and vibrant because of the insatiable desires of the increasingly wealthy US consumer. The fact that the goods these consumers want are no longer manufactured here but abroad matters little in this equation — unless of course you are looking for manufacturing work without yet realizing that transition is at hand. In this economy, transition learning is a must for workers in the service and manufacturing sectors (skilled or unskilled).

The US manufacturing sector is also strong because of the strength of our trading partners and goods being manufactured for export as well as domestic demand. The one monkey wrench in all this is the price of oil. A new rumor this week was that oil would touch \$100 per barrel this year. As long as oil is an uncertainty, analysts will remain on pins and needles about the economy's strength. From our point of view, the US economy's growth path in 2005 is solid. By year-end we believe we will look back and see that growth this year was stronger than the consensus believed it would be.

**ISM Mfg: New Export Orders Index**

SA, 50+ = Econ Expand



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