



September 2011

High Uncertainty in September

On Sep 2, the Bureau of Labor Statistics announced that the U.S. created zero jobs during the month of August, while the unemployment rate remained at 9.1%.

Private hiring, which excludes government agencies, climbed 17,000 last month, but that wasn't enough to offset the public sector declines. A strike at a telecom giant Verizon Communications, which has since ended, temporarily took wiped out 45,000 jobs.

Hourly earnings and hours worked both declined, reducing the incomes of consumers whose spending accounts for 70% of the world's largest economy. The August jobs report was a sign of deeper problems threatening the economy. Harvard University's Martin Feldstein, a member of the nine-person NBER committee said on Aug 26, "We've got a better-than-even chance that we're going to be sliding into what will be called a recession."

The jobs report makes it more likely that Chairman Ben S. Bernanke and his Fed colleagues will take further steps to protect the recovery when they meet Sept 20 -21.

On the other hand, an election loss for German Chancellor Angela Merkel's party spurred concern that support for bailout of Europe's indebted nations may fade.

The Social Democrats, the main opposition party in Germany, took 36.1% to win the election in Mecklenburg – Western Pomerania, while Merkel's Christian Democratic Union had 23.3%, its worst result since voting began in 1990 after reunification that year between West Germany and the former communist East Germany.

The result shows that the voters resist her bid to prevent a euro-region breakup by putting more taxpayer money on the line for bailouts.

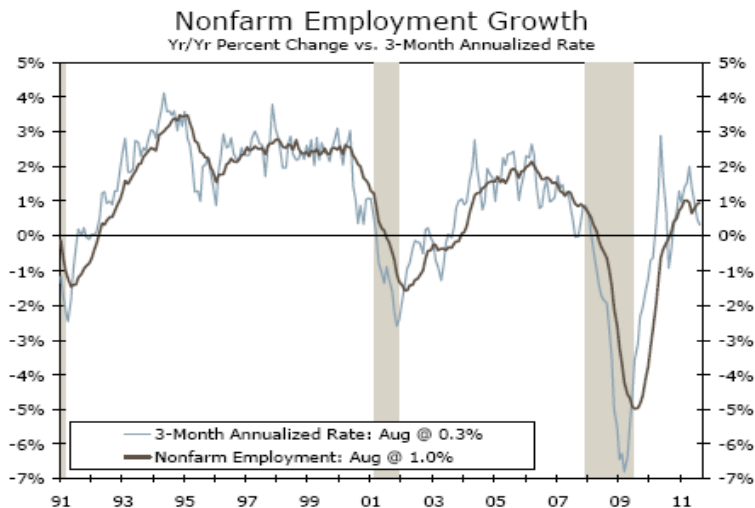
Stagnant payrolls, plunging consumer confidence, falling home prices, slowing manufacturing and lower bond yields and stock prices, all pointing to the fact that U.S. economy is faltering.

According to The Conference Board's report released last month, the risk of recession has increased slightly, but overall it remains low – about a one-in-three chance. However, the market's assessment of the failing policy environment does pose a serious risk to global financial markets, which can spill over into a further weakening of the economic indicators and perhaps the greatest danger right now is that the current fear of another recession becomes a self-fulfilling prophecy.

That's what we are worrying about because weak labor market hurts consumption and without enough spending, U.S. will fall into recession. People expect Fed to do something soon, i.e. replacing short-term Treasury securities with long-term bonds in a bid to lower rates on mortgages and car loans, but the policy effect seems deteriorating.

Meanwhile, the vote on expanding the European Financial Stability Facility (EFSF) is set for September 29. It is possible that Merkel's center-right coalition could not get enough votes to win approval of the EFSF.

Last month, we suggested selling almost all equities holdings and switching them into the bond funds because most critical levels for the benchmark indexes have been hit and the risks were rising sharply. We think the current rebound is weak and the uncertainty remains high.



There were zero net nonfarm payroll jobs created in August.

Sources: Wells Fargo Securities

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