Lumesis

## A Better Way to Dive into Employment Data

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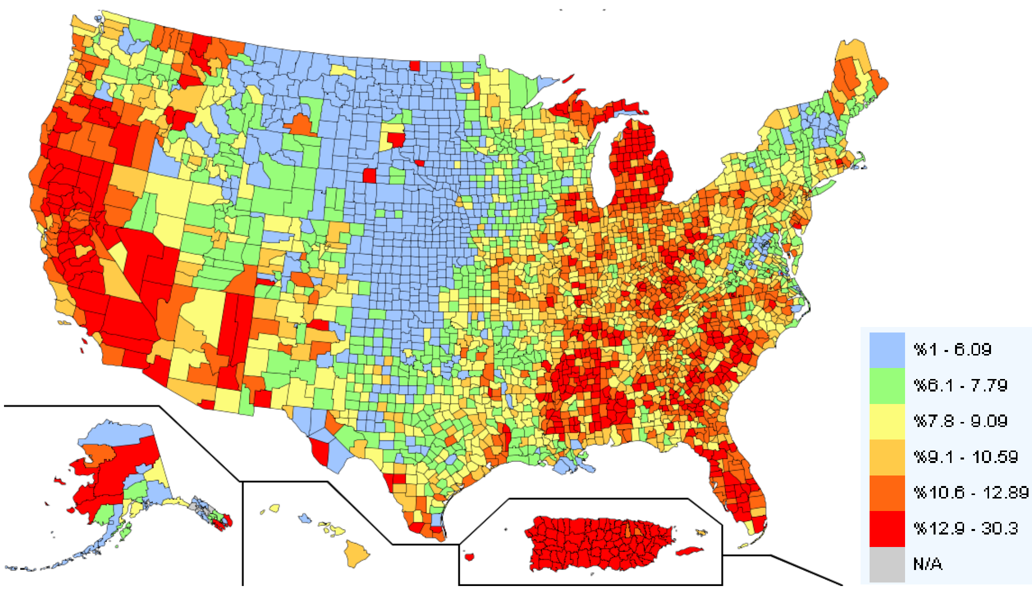
A major credit driver in the municipal market is the level of unemployment in a State or community. A high level of employment implies that a local economy is growing. More importantly, lower levels of employment may be early signs of distress for certain issuers. Decreased employment lowers sales tax receipts and, in some jurisdictions, income tax receipts.

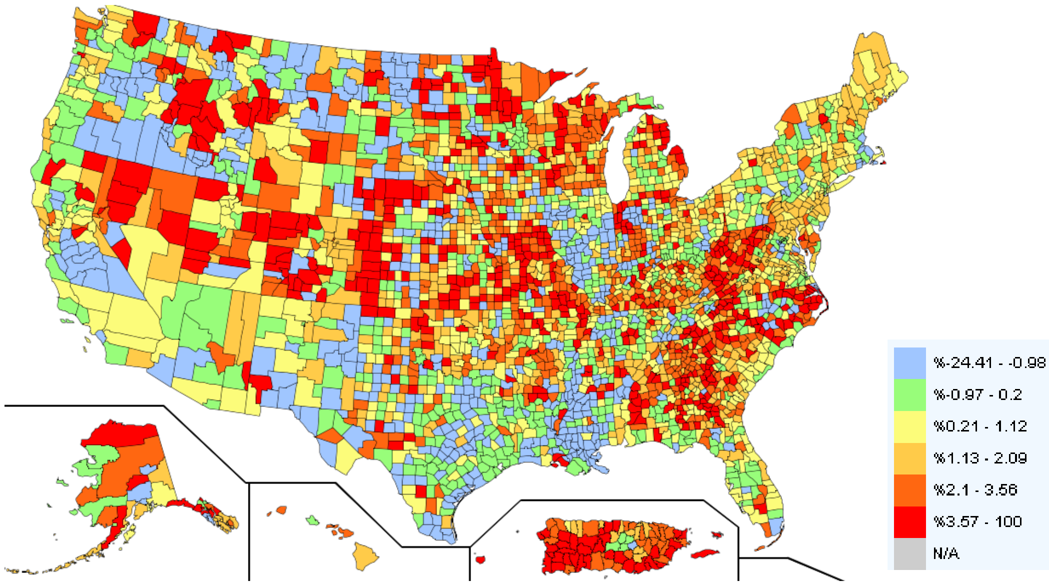
Below is the July 2010 unemployment data, as reported by the BLS and mapped on DIVER. The seasonally adjusted national unemployment rate was 9.5%. The key on the right indicates that level of unemployment that each color represents.




This employment data tells us some of what we already know. Michigan and California have pervasively high unemployment and Texas as well as the plains states are doing well. However, what has not received much media attention is that the Southeast is seeing widespread unemployment as is the upper Midwest – significant indicators easily identified by DIVER. And the extremely high rates across Puerto Rico (about 16% for the territory as a whole) might come as a shock to anyone unfamiliar with the economy and relatively poor creditworthiness of the island.

Looking at unemployment data alone is deceptive, particularly coming out of a recession. From a municipal investor's perspective, a more important statistic is the change in the labor force. While fluctuations in employment can impact an issuer's financial situation on a year-to-year basis, the loss of labor force implies either flight from the area or despair among the current population about finding employment. This has implications on a number of other key credit indicators - housing prices are likely to be impacted by both the lack of jobs and the net emigration from areas with shrinking labor forces, and businesses are likely to follow their customers to their new homes. Additionally, the success or failure of transportation and hospital finance projects is likely to be directly related to population movement.

The map below is generated from BLS data by looking at the change in labor force from July 2009 to July 2010. Through this period, the national unemployment rate ticked up from 9.4% to 9.5% (though it peaked just over 10% in October 2009). However, the US employment participation rate continued to fall, dropping to 64.6%, the lowest rate since 1986(!). In the chart below, the color scale is intuitive, with blue and green representing an increasing or stable labor force while areas with greatest decrease are red.




We now get a more informed picture of the employment situation around the US. While the country has been experiencing lower employment than in the recent past, the labor force (including both employed and those looking for employment) increased in many areas over the past year, particularly the west coast. The San Francisco area and west to Fresno stand out as having resilient and growing labor despite high unemployment, as does most of Mississippi and Alabama and, to a lesser extent, the Boston-Providence Area. This bodes well for these areas and can help predict surprises in tax revenues. In July and August, Mississippi's tax collections averaged 3.6% ahead of expectations[i], while Rhode Island was 8.9% ahead[ii].

At the other end of the spectrum, parts of Indiana, Nevada, Utah, and Colorado have lost up to or more than 5% of their labor force in a year that some characterize as a partial recovery! Despite the stabilization of the unemployment rates in these states, we expect continued weakness as local governments continue to collect less money than they did in prior years as we saw with Indiana falling more than 7% short[iii] on their revenue projections, while Colorado[iv] has had to revise downward their revenue expectations



[i] http://www.clarionledger.com/article/20100901/NEWS/9010338/Miss-tax-collections-in-August-surpass-expectations
[ii] http://www.bondbuyer.com/issues/119_424/-1017157-1.html
[iii] http://www.nwitimes.com/news/state-and-regional/indiana/article_03f2f808-1059-5776-827e-365e28e7fde1.html
[iv] http://www.coloradostatesman.com/content/992163-revenue-forecasts-spell-more-budget-cuts.