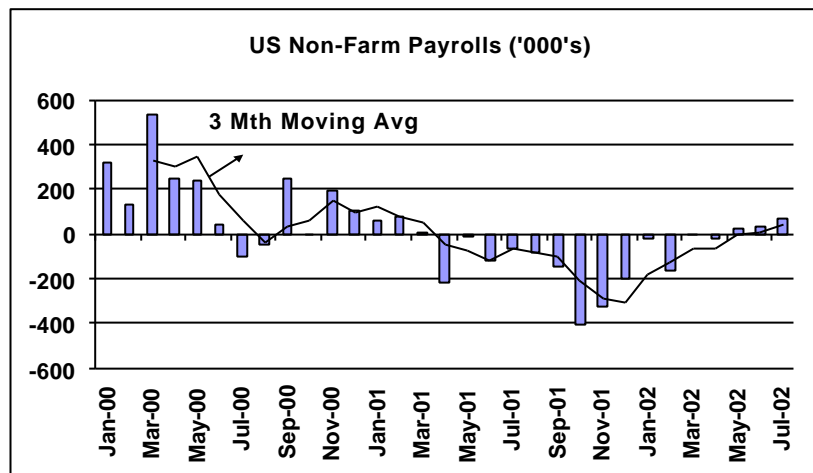


Payrolls Report Dampens Talk of Lower Rates

August's non farm payrolls report, which showed the work force increasing by 39,000 was well received by the markets. The dollar jumped over half a cent against the euro on the release, with stocks also rallying. There was a sense of relief at the headline increase which was in line with expectations. More encouraging was the news that the unemployment rate fell to 5.7% from 5.9% (at best, the rate had been expected to stay steady), that July's 6,000 increase was revised up to 67,000 and that the hours worked had increased. Reassuring markets that the US does not appear to be falling back into a double-dip recession, the data also eased talk of another cut in US interest rates before the end of the year.



While the data do suggest that the labour market is stabilising, there is still inherent weakness in many sectors. Employment gains occurred in services, government and construction. Service industries added 100,000 jobs over the month, higher than the average gain of 62,000 during the previous five months. However, some of these gains were offset by a rather steep decline of 68,000 in manufacturing. In recent months, it seemed as though job losses in manufacturing were abating. However, the August loss was the largest since January of this year. This confirms what we have seen in the ISM report for August, which showed the index at 50.5, only marginally above the 50 breakeven level. Furthermore, retail jobs were down 55,000, after rising 33,000 in the previous month. The report should help support US markets and does not support the case for a rate cut at the next Fed meeting but markets remain wary about the prospects for recovery.

'000s	Aug	July	June	May	April	Mar	Feb	Jan
Change in Non-Farm Payrolls	39	67	34	24	-21	-5	-4	-109
Total Private	-2	47	29	7	-10	-39	-19	-118
Manufacturing	-68	-7	-14	-27	-22	-58	-54	-116
Service Producing	72	108	43	60	49	61	27	71
Government	41	20	5	17	-11	34	15	9
Hourly Earnings (Dollars)	14.82	14.78	14.75	14.7	14.67	14.65	14.63	14.59
Unemployment Rate (%)	5.7	5.9	5.9	5.8	6	5.7	5.5	5.6

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06 August 2002