

2011

JULY

## U.S. JOB MARKET UPDATE

*From the Desk of Our Chief Investment Officer*

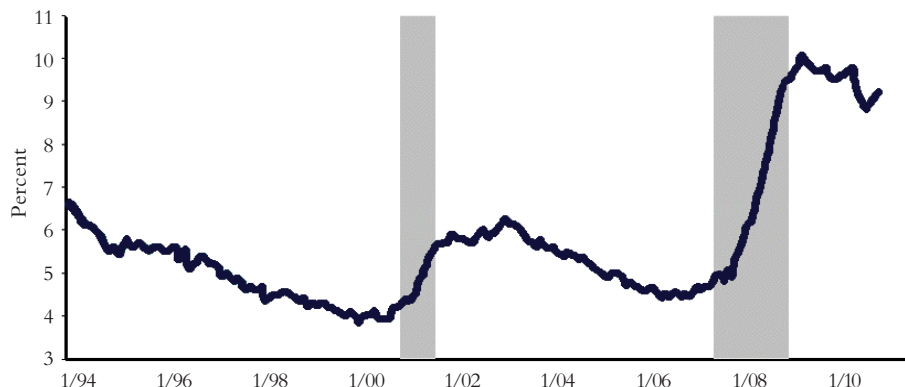
### David L. Donabedian Chief Investment Officer

Dave Donabedian is chief investment officer of Atlantic Trust, returning to the firm in 2009 after serving as chief investment officer for Ashbridge Investment Management, LLC, from 2006 to 2009. As a leading investment expert in our industry, Dave frequently appears on television networks, such as CNBC, and provides insights in publications, such as *Barron's*. Previously, from 1996 to 2006, Dave worked with Atlantic Trust as managing director and chief economist. Dave received a B.S. in economics and a B.A. with honors from The Wharton School at the University of Pennsylvania. He subsequently earned an M.B.A. from Columbia University Graduate School of Business.

The June employment report—released on July 8—provided a particularly downbeat view of the U.S. economy. Below is a summary:

- A scant increase of 18,000 jobs in the payroll survey—well below expectations and accompanied by downward revisions to prior months
- A huge decline of 445,000 in the household jobs survey
- The third monthly increase in a row for the unemployment rate—now 9.2%
- A decline in wages/hours worked, indicating an income problem for consumers
- A fall in the labor force participation rate—now a 27-year low

### Unemployment Rate



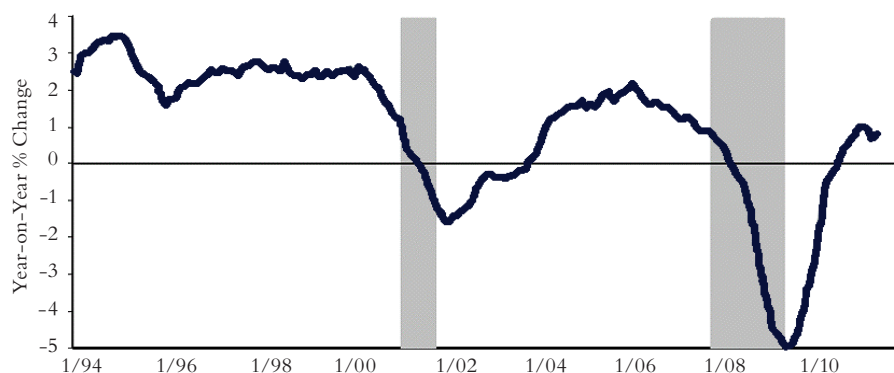
There is no silver lining in the data, only in the old adage that the employment report is a “lagging indicator” of activity. There has been an uptick in most economic data recently, lending credence to the notion of a better second half for the economy. The recent drop in energy prices should provide some relief to consumers. Meanwhile, parts and inventory shortages—caused by the Japanese earthquake and tsunami—are being rectified; this should help manufacturing activity and auto sales in the months ahead.

We do expect a more positive economic outlook, but a swoon like this after the extreme efforts to stimulate activity over the last three years confirms that we

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## Change in Payroll Employment



are in a fragile and less prosperous business cycle. Until there is a jolt of confidence that sparks credit formation and hiring, the U.S. economy will remain stuck in slow-growth mode.

In the short term, the negative employment report complicates negotiations in Washington on a potential debt ceiling/deficit reduction deal. The discouraging jobs news gives conservatives more reasons to dig in their heels on opposing tax increases and gives liberals more ammunition to say that spending cuts will put an already shaky economy at risk. While 788,000 jobs have been added this year, total employment is still 1.8 million lower since President Obama took office—a statistic that is on the minds of both political parties. There may be an effort to tack on some 2012 stimulus measures while deferring austerity moves until 2013.

On the monetary policy front, we may begin hearing whispers about QE3—another aggressive attempt by the Fed to do a “helicopter drop” of money on the economy, as Chairman Bernanke referenced. We believe such action is unlikely unless reports continue to show economic deterioration. The Fed just wound up its QE2 bond buying program on June 30, with a plan to leave its balance sheet steady, keep real short-term interest rates negative and assess the unfolding situation. This additional piece of bad news on the economy may make them nervous, but it will not spur them to change course so quickly, especially given their own forecast of better growth ahead.

***We will continue to monitor economic and political events. For more information on how these developments could affect your portfolio, please speak with your Atlantic Trust relationship manager.***

Source: All data is from the Bureau of Labor Statistics, 6/30/11

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