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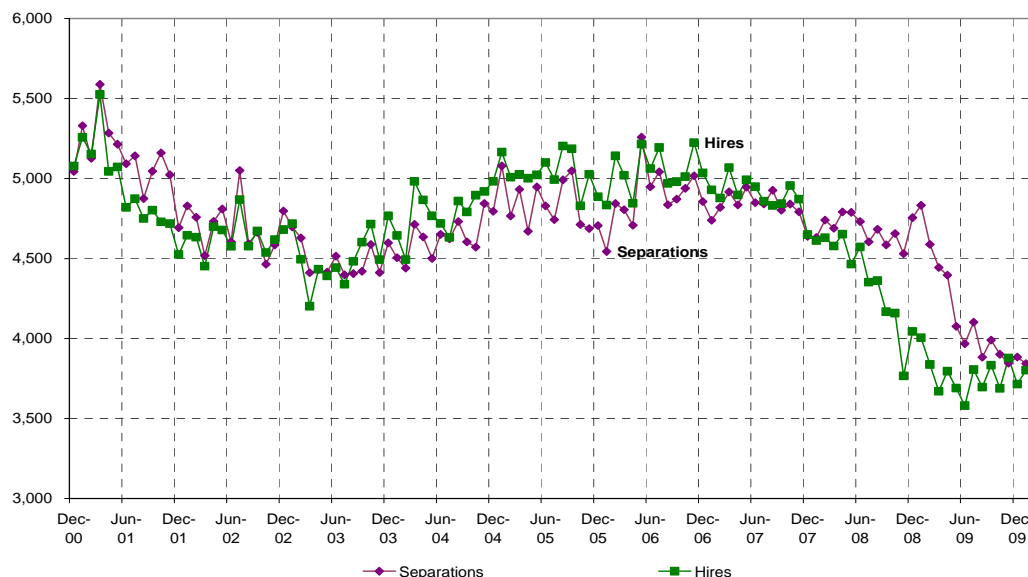
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NOT ENOUGH HIRING YET TO SIGNIFICANTLY REDUCE CREDIT COSTS

Too few jobs are being created by the recovery to reduce the very high level of unemployment. That is constraining the improvement in bank consumer credit costs. The pace of job losses has slowed significantly since the depth of the recession in 2009, but this slowdown has not been matched by a pick up in hiring. As we discussed in our newsletter on March 5th, 2010, fewer workers are losing their jobs, contributing to improving trends in early consumer credit delinquencies. Faster job growth is needed, however, for more consumers to work their way out of their credit problems or avoid falling further behind. Our expectation is that job growth will pick up as 2010 progresses. If this pick up strengthens, we would become more optimistic on the pace of improvement in bank credit costs in the second half of 2010.

Not enough hiring and still too many firings! That summarizes the weakness in the current employment situation. Even though layoffs and discharges are down, job hires in the private sector have not picked up from their slow pace in 2009. The good news is that job hires at 3.8 million, while down from 4.0 million in January 2009, are at least matching the lower pace of job separations (voluntary, involuntary and other), as reported by the Bureau of Labor Statistics in its release "Job Openings and Labor Turnover." On a seasonally adjusted basis, job separations are now running at 3.8 million still very elevated, but well down from 4.8 million in January 2009. (See Exhibit 1). Contrary to the headlines, the U.S. economy is creating a large number of jobs in the private sector, just not enough to outpace the current level of job separations and reduce unemployment.

Exhibit 1: Not Enough Hiring, Still Too Many Layoffs
Private Sector - Hires and Separations, ('000s, S.A.(Dec'00 - Jan'10)

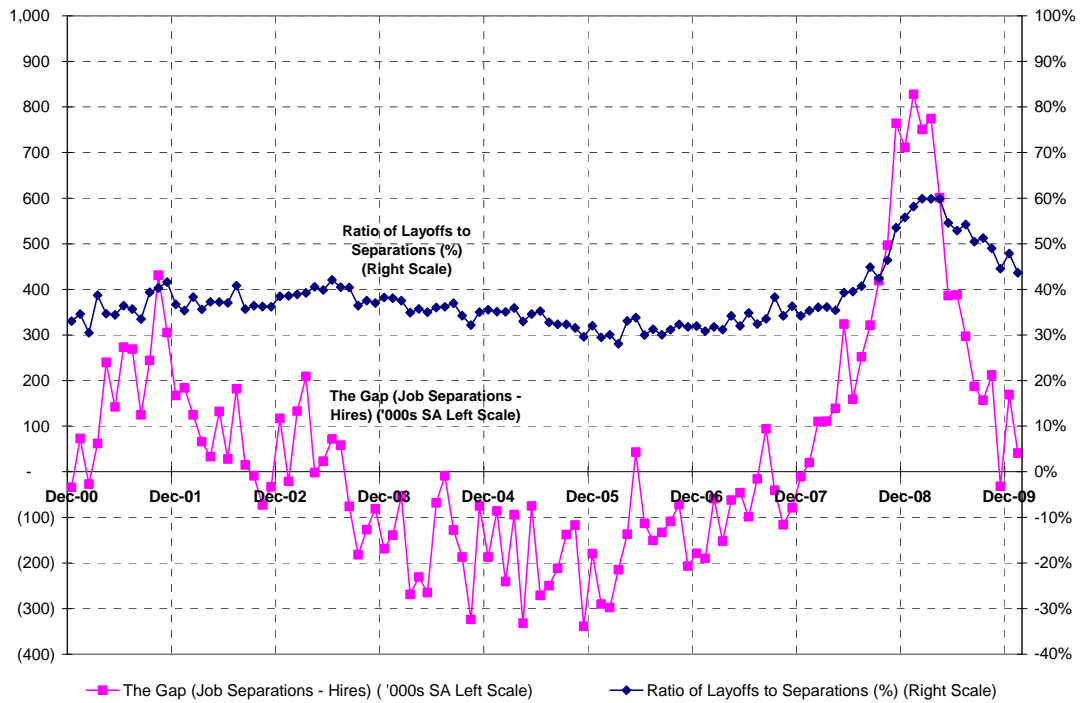


Source: U.S. Bureau of Labor Statistics, DBRS

With a slower pace of job separations, the gap between separations and hires in the private sector has narrowed dramatically to only 41,000 in January 2010 from over 700,000 in each of the months between November 2008 and March 2009. (See Exhibit 2). It was this massive gap that drove the rapid escalation in the number of unemployed in the recession. This chart illustrates the beginning and duration of this recession. The gap first appeared at the beginning of 2008.

A key factor in the decline in the level of separations in the private sector has been the reduction in layoffs and discharges (involuntary separations) At 1.9 million in January, these involuntary separations now comprise about 44% of total separations, substantially, down from a peak of 60% in the Spring of 2009. (See Exhibit 2) Also indicative of the weakness in the employment situation, quits (voluntary separations) remain subdued at 1.7 million in January 2010. Other separations (including retirements) are usually not a large contributor, running typically between 200,000 and 400,000 a month. We focus here on the private sector. The government sector is a modest contributor to job turnover adding only 279,000 separations in January 2010.

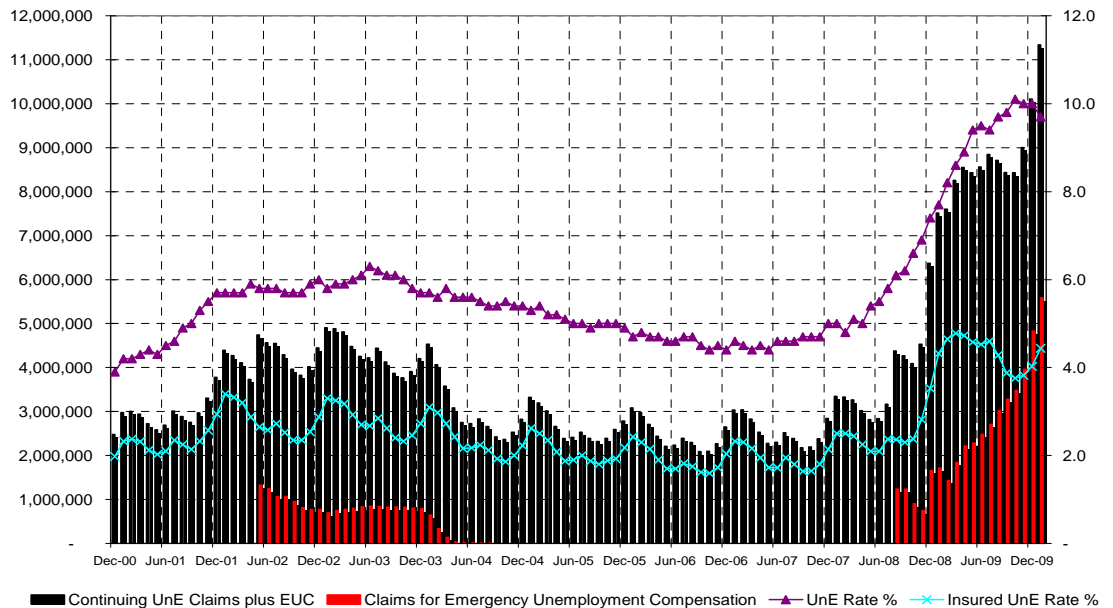
Exhibit 2: Gap Between Job Separations and Hires; Ratio of Layoffs & Discharges to Separations



Source: U.S. Bureau of Labor Statistics, DBRS

The extent of unemployment remains overwhelming, despite the recovery. While the unemployment rate appears to have peaked at just over 10%, the continuing claims for unemployment compensation are showing little decline. Towards the end of February, over 11 million people were making claims under various programs. Indicative of the length and depth of the downturn, there are now as many people on Emergency Unemployment Compensation (EUC), 5.5 million, as making regular state continuing unemployment insurance claims, 5.5 million. In November 2008, when the unemployment rate was 6.9%, there were 3.8 million continuing claims and only 748,000 EUCs, a combined total of 4.5 million claims.

**Exhibit 3: Still Elevated Level of Unemployment
Continuing UnE Ins Claims plus EUC; Unemployment Rates, Monthly 2000-2010, NSA**



Source: U.S. Bureau of Labor Statistics, DBRS

While there are some promising signs in the upturn in job openings in recent months, the pace of job hires remains too lackluster to reduce the level of unemployment. That is not auspicious for a significant improvement in credit costs for banks. An improving employment situation would help alleviate pressures not only on consumers, but also on many small and mid-sized businesses. Over the next few months, hires may benefit from positive trends in the leading indicators, rising consumer confidence and better weather.

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