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Consumer Strategies
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GHS Consumer Strategies: The Safety Net, Education, Temp Jobs, and Weekly Claims

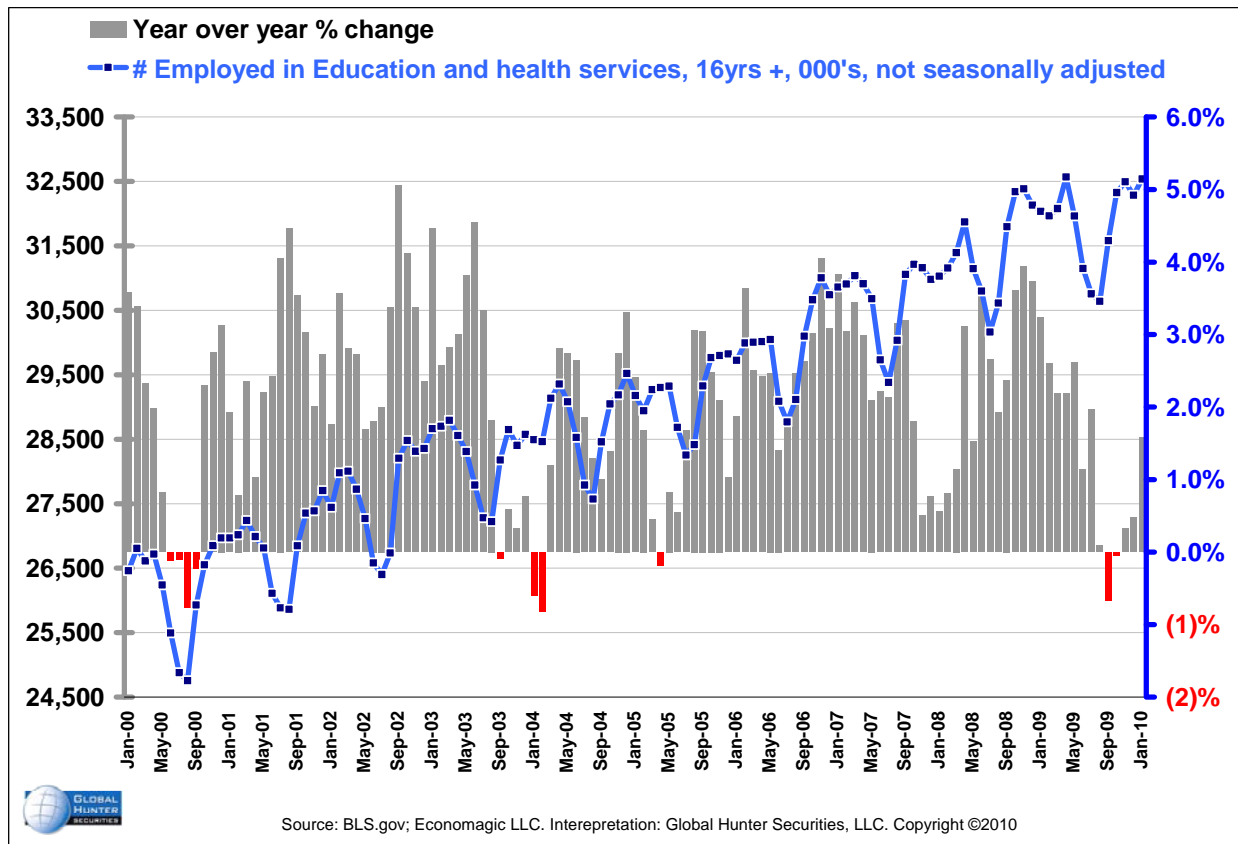
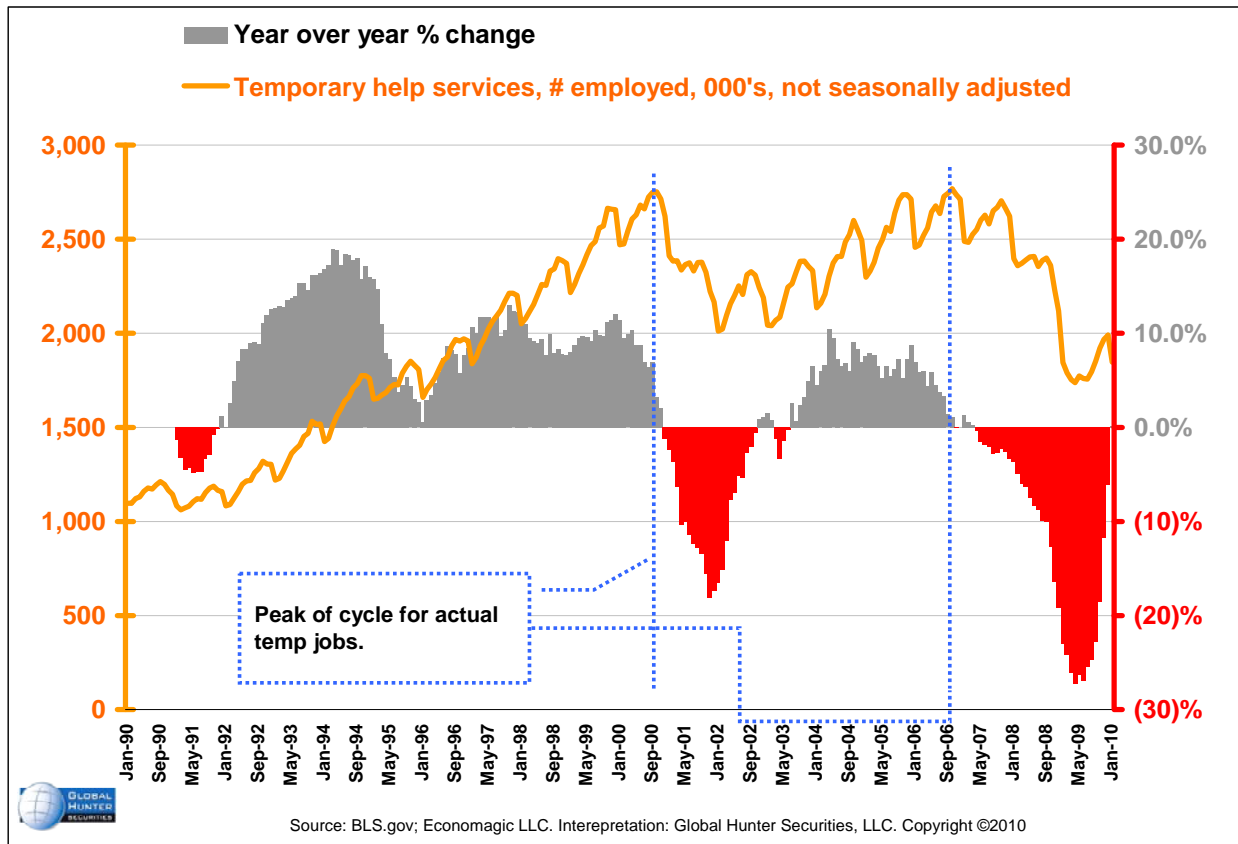
Summary: We reviewed the most recent weekly jobless claims on a not seasonally adjusted basis. The seasonally adjusted data came in well above consensus again last week, although the unadjusted data continued to improve against very recent trends. We put this information into the context of trends in government employment especially in education; state budgetary woes; and structural changes to wages and employment. The information suggests the federal government remains under pressure to fund state unemployment needs at the same time that state budgets appear to be deteriorating. The outlook for labor remains generally very discouraging, in our view.

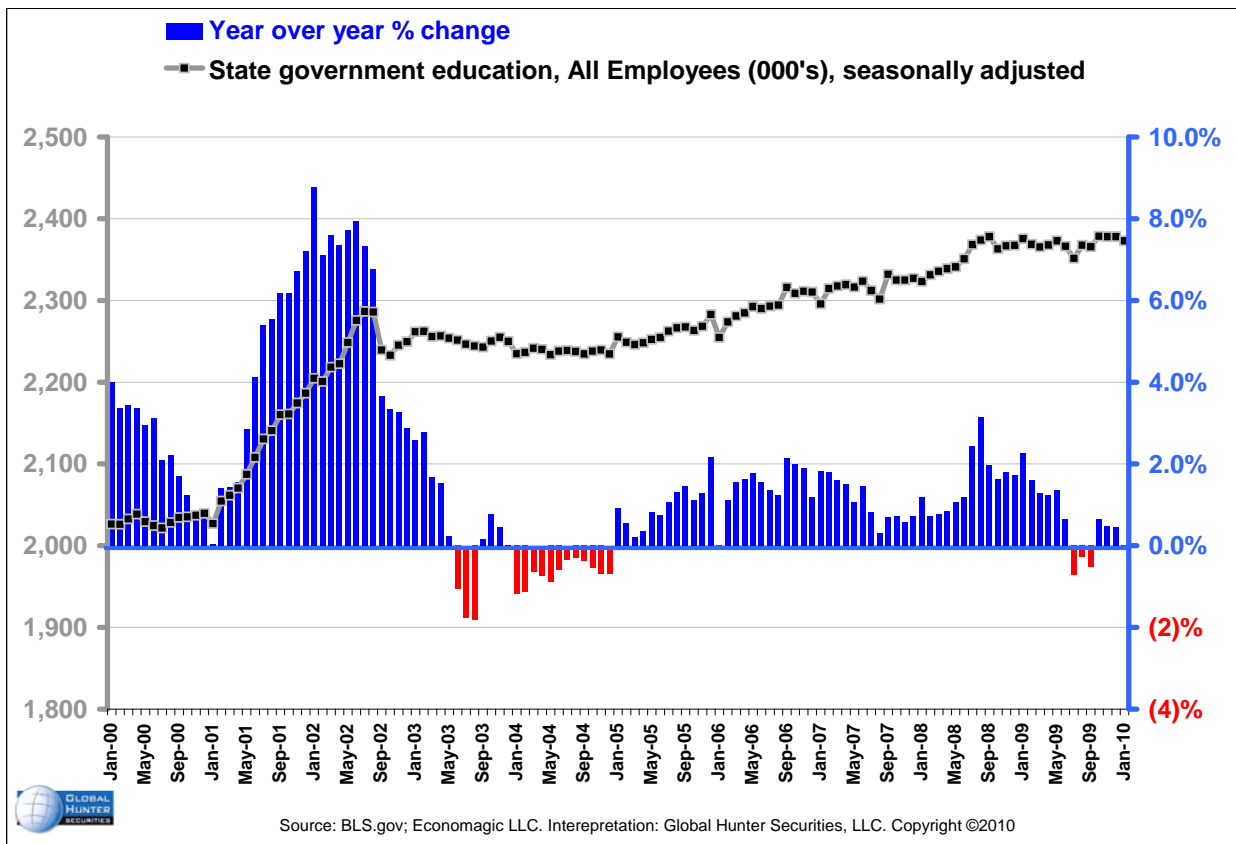
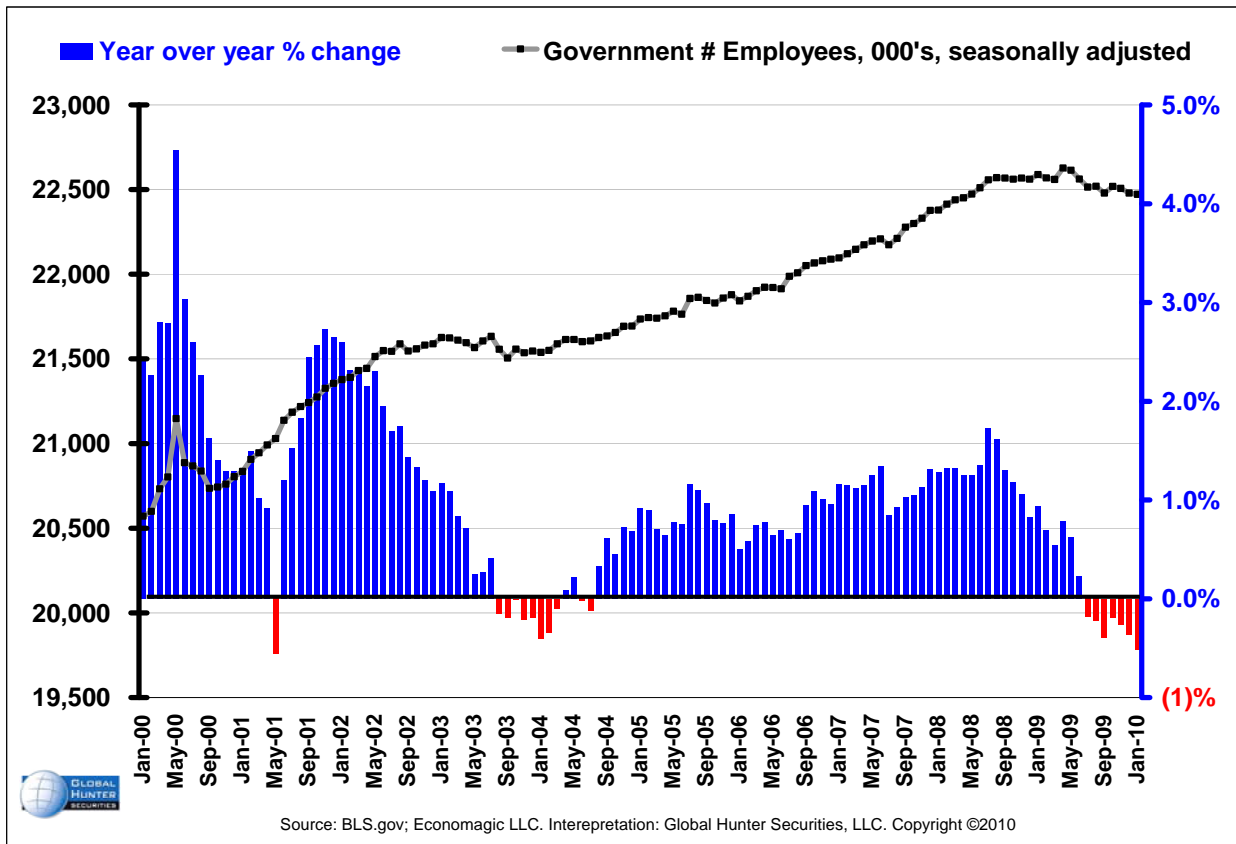
KEY OBSERVATIONS:

- **Weekly jobless claims (seasonally adjusted) came in well above expectations for second consecutive week.** Economists expected weekly claims for the week ended Feb. 20, 2010 at 460,000. Actual results were 496,000. For the week ended Feb. 13, 2010, economists expected new claims at 440,000 but missed again as new claims came in at 473,000, seasonally adjusted. Unadjusted claims were trending better than seasonally adjusted data at this time. We are nevertheless led to believe that an improvement to the labor situation is rather unlikely, at least through September 2010, in our opinion.
- **Temporary and contract positions increasing, fueling new claims.** Our sources in the recruiting and staffing industries indicate a rebound in demand for temporary workers in various engineering fields in addition to certain type of software technology positions, among others. Looking at historical trends in temporary employment obtained from Bureau of Labor Statistics data, we note that substantial growth in temporary jobs is slow to accumulate when recessions end, thus we should interpret the current rebound as a beginning and not as the middle of a strong cycle. It could take another 12- to 18-months for the current temp job rebound to gain strength. We would note that the temp job cycle, since the 2001 recessions, appeared to be of lower than typical quality and duration, in our view (see charts on the following pages).
- **Workers struggling with choices over unemployment pay rates and new jobs offered at lower rates.** We are hearing numerous stories from our sources that new jobs are occurring at lower than historical wage rates, and many jobs offered today are contract jobs involving 1099 payment systems. Non-exempt salaried jobs appear to be occurring at a slow pace. Workers are reportedly struggling to determine if they should stay on long-term unemployment based on historical pay rates or go off unemployment, take a new job at a lower pay rate than the unemployment pay rate. If the new job terminates for whatever reason, then the new unemployment rate would be based on the latest job pay rate, thus moving the new and latest unemployment pay rate significantly down the pay scale. Thus, a major resetting of wages is still unfolding in our view, dominated by a notable downward shift in the overall wage level.
- **Jobs in education and government point to major funding dilemmas as state budgets continue to deteriorate.** Two major sources of research into state budgets, including The Rockefeller Institute and the Center on Budgets and Policy Priorities, recently indicated continued negative tax revenue trends, in addition to widespread reports of budget cuts and impending budget decisions that would very likely impact state services including education. This could mean that one of the safety nets (jobs in education) could be in trouble over the next two years, and certainly could be in trouble for as long as tax revenues continue along the currently inadequate level in almost all 50 states, in our view. Seasonally adjusted version of government jobs seemed to be slightly encouraging at this time (see charts), although we are led to believe that the price to pay for this could become less affordable within the next two years as overall debt levels continue to increase against insufficient state tax revenue growth rates, in our opinion.
- **Federal transfers to states continue, deficit spending dilemma intensifying.** The pressure on the federal government to extend TANF (Temporary Assistance to Families in Need) and similar unemployment benefit programs to the states, some of it through the American Recovery and Reinvestment Act (ARRA) is very high. One report in the CBPP today said that the economy could lose 900,000 jobs in 2011 if various federal transfers are not extended. With various ARRA programs set to expire on 12/31/2010, we believe the state budget crisis is intensifying, in our view, and could substantially impact employment trends later this year.

MARKET CONCERNS:

Fortunately, earnings season has been very successful especially in retailing, thus this news should not derail equities for now. The markets seem to know that the labor situation is troublesome for growth. However, the market's focus seems to be mostly on earnings at this time and less on macro issues. There was a significant dip in equities on Tuesday, Feb. 23, 2010 when The Conference Board's Consumer Confidence Index came in unexpectedly (very) low. We were surprised that the markets moved so much on that news when it should be understood that broader consumer attitudes remain unimpressive. Therefore, we would tend to believe that equities will occasionally react negatively to certain labor market and consumer survey news. In between "occasionally" we are more encouraged by earnings at this time as the primary driver of equity markets.





State Level Budget Crises: Excerpts from Recent Reports by the CBPP

We are providing here, thanks to permission from the Center on Budget and Policy Priorities, their state-level budget warnings as provided by the CBPP in a report dated February 25, 2010. <http://www.cbpp.org/cms/?fa=view&id=3076>. *We would not be paying attention if we did not state the obvious: that the state budget situation will very likely collide with the large number of newer municipal bonds sold without insurance, setting the stage for a significant credit risk situation in the muni bond market in 2011, in our view.*

- Alabama's governor is proposing a hiring freeze that would reduce the non-education state workforce by 2,000 workers by the end of fiscal year 2011.
- Arizona's governor is proposing deep cuts to a range of programs and services. If enacted, her budget would: eliminate the state's children's health insurance program (KidsCare), which covers 47,000 children; repeal Medicaid coverage for more than 310,000 adults with low incomes and/or serious mental illnesses; make deep cuts to support for early learning by eliminating preschool for 4,328 children and eliminating state support for full-day kindergarten; and reduce the number of months that low-income families can receive cash assistance through the Temporary Assistance for Needy Families (TANF) program, immediately eliminating assistance for 10,000 poor families, among other cuts. (Under the governor's plan, the repeal of Medicaid coverage would not take effect if the federal government provides additional Medicaid funds.)
- California's governor is proposing deep cuts to health care, education, the state workforce and human service programs beyond those already enacted. Specific cuts include additional deep reductions to Medi-Cal (Medicaid) services, a \$1.5 billion reduction in K-12 and community college funding in 2010-11, a 5 percent to 10 percent cut in state employee salaries, a reduction in monthly grants to low-income people who are elderly or have disabilities, elimination of the state's Calworks program (which provides employment services and basic cash assistance for very poor families with children) and a number of other human service programs, and elimination of funding to respond to enrollment growth in the state's public universities.
- Colorado's governor proposes to eliminate a scheduled increase in K-12 funding that would cover enrollment and cost increases and implement an additional cut of \$223 million in school aid. He also proposes delaying payments to Medicaid providers and cutting payment rates.
- Connecticut's governor proposes cuts to early care, health care, and other services. Her budget cuts funding for a program that provides child care subsidies to low- and moderate-income working families by 12 percent. It would increase health insurance co-payments and in some cases premiums for more than 15,500 children and 124,000 adults, and would no longer pay for most non-prescription medications, vision services, and eyeglasses for the adults. Other lower-income individuals who now receive subsidies for purchasing health insurance from a state-run health plan would have to pay full price, with the likely result that many of the roughly 13,000 participants in the plan would drop coverage entirely.
- Delaware's governor proposes five days of furlough for teachers, state police, and other public workers.
- Georgia's governor proposes cuts to education that would reduce K-12 spending by nearly 11 percent from pre-recession levels; state university spending would be reduced by more than 9 percent.
- Hawaii's governor is proposing large cuts to the state workforce, including the layoffs of up to 1,198 employees. She also is proposing elimination of a program that provides cash assistance to low-income senior citizens and people with disabilities; elimination of the Department of Health's Division of Community Health and Dental Hygiene Services; and curtailing the state's Medicaid adult dental services benefits.
- The governor of Louisiana proposes a 3 percent cut in rates for certain Medicaid providers. These are in addition to rate cuts of more than 10 percent since fiscal year 2009.
- Maine's governor is proposing 10 percent cuts in payments to certain Medicaid providers (primarily to long-term care providers), and a further cut in overall K-12 education spending beyond cuts already enacted.
- The Massachusetts budget proposes a \$174 million reduction in Medicaid provider rates and the elimination of restorative dental services such as fillings and root canals for 200,000 adults, and virtually eliminates state funding for a program providing housing vouchers to homeless families.
- Maryland's executive budget proposal calls for a reduction of \$123 million in Medicaid payment rates to hospitals, \$330 million in cuts to local aid relative to current statutory levels, and up to 10 furlough days for state employees.
- The governor of Michigan proposes encouraging early retirement for state workers and teachers and eliminating one-third of the state jobs left vacant. Her budget would reduce health benefits for new state employees and retirees, and eliminate a three percent salary increase for many state workers. The governor's budget also cuts funds to higher education. It eliminates a program that gives college scholarships to 15,000 low-income students, and cuts back another one.
- In Minnesota's supplemental budget, the governor cuts \$250 million in local government aid, reduces funding for higher education institutions to 2006 levels, and cancels state-subsidized health insurance for 21,500 working adults without children. He proposes changes in eligibility for the state's assistance to needy families program that eliminate cash assistance for 4,000 families and remove 500 families from the program altogether, and requires 800 working families to pay more for child care. The governor's budget proposal also eliminates a monthly cash grant to very poor single adults and childless couples who are unable to work.

- Mississippi's governor is proposing to cut state aid to K-12 schools by over 9 percent, close four mental health facilities, and cut most other agencies' budgets by 12 percent.
- In his proposed adjustments to the state's two-year budget, Nevada's governor proposes myriad cuts to health care and education. Under his proposal, the state would cut reimbursement rates for health providers, and limit its willingness to pay for products such as bedpans and adult diapers. Health insurance premiums would as much as triple for 22,000 children, some 6,300 adults would lose access to vision services, and other services such as physical and speech therapy also would be cut back. The governor proposes cutting K-12 and higher education funding by 10 percent, likely resulting in some combination of teacher layoffs, pay cuts, or shortened school years. He also would reduce independent living grants to seniors, cut funding for local child welfare and child protective services, furlough state workers one workday per month, and lay off 235 state employees.
- While New Jersey's new governor has yet to release his FY2011 budget, he announced plans to eliminate eligibility for a key state-subsidized health insurance program for nearly 12,000 legal immigrant adults and to freeze new enrollment in the program for all other adults in the current fiscal year.
- New York's governor is proposing a \$1.1 billion cut to state education aid; more than \$400 million in reduced payments to health care providers and about \$100 million in other health-related cuts; \$143 million in funding cuts for four-year public colleges and cuts to a financial aid program serving students from low- and moderate-income families; and the elimination of state revenue-sharing aid to New York City along with a reduction in revenue-sharing aid to other localities.
- The governor of Rhode Island proposes eliminating state reimbursement to cities and towns for the loss of revenue caused by state legislation eliminating local taxes on the value of motor vehicles — a source of revenue equal to roughly 7 percent of local tax revenues. He also proposes cutting state funding for K-12 education by more than 3 percent and higher education by nearly 6 percent below enacted FY10 levels.
- South Carolina's governor is proposing capping total enrollment in the state's children's health insurance program.
- In Tennessee, the governor proposes reducing state Medicaid spending by 7.5 percent (\$174 million). He proposes doing this by capping the amount that the state will pay for an individual to receive inpatient hospital care each year at \$10,000, which is well below hospitals' actual costs for many patients. He would also eliminate occupation, physical, and speech therapy services, and allow no more than eight lab and x-ray procedures per year for adults. The governor's proposal also would eliminate the jobs of nearly 400 state workers.
- Vermont's Governor recommends a host of spending cuts, primarily focused on human service programs and education, including a 3 percent reduction in Medicaid provider rates, Medicaid premium increases, caps on some Medicaid services like the number of emergency room visits, and an increase of 20 percent in the average number of students per teacher
- Virginia's governor proposes to cut state funding for K-12 education by \$731 million or 11 percent beyond the significant cuts that have already been implemented. He proposes to eliminate all state funding for home health care services for Medicaid patients, eliminate eligibility for Medicaid long term care services for approximately 2,000 seniors and people with disabilities, and freeze enrollment in the state's children's health insurance program, which would deny enrollment to an estimated 28,600 children and parents. He would require state workers to take five furlough days, and reduce state aid to local governments by \$50 million. These reductions come on top of the significant cuts to education and health care and 664 layoffs of state workers proposed in the original budget.
- Washington's governor is proposing deep cuts to education and health care. She is proposing: eliminating two education programs, both of which reduce class sizes and one of which provides professional development for teachers; cutting the state work-study program as well as several smaller financial aid programs that help 11,000 students go to college; reduced funding for two- and four-year colleges, likely resulting in administrative cuts, larger class sizes, and elimination of support services such as student advising; and a 20 percent reduction in early interventions and 25 percent reduction in direct client services for HIV and HIV-vulnerable populations.
- Wyoming's governor is proposing cutting state aid for local governments by more than half.

State Level Budget Crises: Q4 State Level Tax Revenues (courtesy Rockefeller Institute)

The following table and charts provides state level, and nationally aggregated tax revenue data, courtesy of The Nelson A. Rockefeller Institute of Government (www.rockinst.org) for the fourth quarter of 2009. Tax revenues seem to be improving going into Q1 2010, but our attention should be focused on the challenging deadlines to bring in a lot of tax revenues quickly before states begin making substantial services reductions – as previously discussed by the state level data from the CBPP. In some states, the timetable should be successful, such as Wisconsin; in many others, however, it seems that the amount of revenue required would not materialize fast enough to detail the service cuts in states such as Georgia and Tennessee.

Table 3. Percent Change in State Tax Revenue				
Quarterly Tax Revenue by Major Tax, Early Reporting States October-December 2008 to 2009, % change				
	PIT	CIT	Sales	Total
United States	(4.5)	(5.8)	(4.2)	(4.1)
New England	(4.3)	36.3	5.4	0.5
Connecticut	0.6	299.1	(6.6)	(2.1)
Maine	(4.7)	16.6	(2.6)	(1.6)
Massachusetts	(6.5)	30.1	20.8	2.8
New Hampshire	NA	(3.5)	NA	3.6
Rhode Island	(5.0)	1.6	(3.3)	(1.8)
Vermont	(8.3)	79.5	(4.9)	(2.1)
Mid-Atlantic	(0.4)	(29.1)	(3.4)	(3.6)
Delaware	(10.0)	(40.4)	NA	(6.6)
Maryland	(5.0)	33.7	(4.3)	(3.1)
New Jersey	(2.3)	(24.1)	(6.3)	(5.8)
New York	2.8	(40.4)	(0.3)	(1.6)
Pennsylvania	(4.8)	(27.0)	(4.3)	(5.5)
Great Lakes	(5.1)	(15.1)	(4.7)	(5.1)
Illinois	(3.3)	(1.8)	(12.0)	(6.9)
Indiana	(9.4)	(31.2)	(5.7)	(7.9)
Michigan	(9.4)	(17.1)	(0.4)	(6.5)
Ohio	(10.9)	64.6	(0.2)	(6.0)
Wisconsin	7.7	8.7	(6.6)	3.4
Plains	(7.0)	(3.9)	(4.5)	(5.3)
Iowa	1.0	135.7	(4.7)	(0.6)
Kansas	(7.7)	18.1	(0.4)	(5.1)
Minnesota	(6.2)	(7.6)	(6.7)	(5.2)
Missouri	(12.6)	(11.7)	(7.3)	(9.3)
Nebraska	(4.5)	(51.8)	(1.5)	(3.8)
North Dakota	ND	ND	ND	ND
South Dakota	NA	NA	7.4	6.6
Southeast	(5.0)	27.7	(4.0)	(1.3)
Alabama	4.4	24.0	(2.5)	(0.4)
Arkansas	(4.6)	50.0	(10.9)	0.5
Florida	NA	(15.8)	(5.1)	(0.9)
Georgia	(8.5)	(40.1)	(17.7)	(12.8)
Kentucky	(8.3)	(32.7)	(3.5)	(3.5)
Louisiana	ND	ND	ND	ND
Mississippi	(2.7)	(4.6)	(7.8)	(4.5)
North Carolina	(5.2)	458.5	19.7	11.4
South Carolina	(1.1)	(201.3)	(4.0)	(4.6)
Tennessee	NA	22.1	(5.1)	(2.6)
Virginia	(4.9)	144.4	(0.2)	(0.4)
West Virginia	(3.8)	11.1	(5.8)	(3.9)
Southwest	(16.3)	(74.3)	(13.0)	(18.1)
Arizona	(10.3)	(96.6)	(13.7)	(17.1)
New Mexico	ND	ND	ND	ND
Oklahoma	(24.0)	(29.2)	(15.4)	(26.9)
Texas	NA	NA	(12.7)	(16.8)
Rocky Mountain	(9.3)	(20.9)	(6.3)	(7.8)
Colorado	(8.2)	(52.2)	(5.7)	(9.1)
Idaho	(9.9)	(29.4)	(6.4)	(8.8)
Montana	(15.9)	(67.2)	NA	(11.5)
Utah	(9.3)	79.5	(0.6)	(2.9)
Wyoming	NA	NA	(19.8)	(14.5)
Far West	(5.0)	7.6	0.6	(0.3)
Alaska	NA	196.5	NA	(14.5)
California	(4.6)	6.5	5.2	1.5
Hawaii	(11.8)	(413.3)	(7.4)	(6.9)
Nevada	NA	NA	ND	ND
Oregon	(5.9)	7.3	NA	(5.1)
Washington	NA	NA	(12.0)	(1.4)

Source: Individual state data, analysis by Rockefeller Institute.

Notes: NA - not applicable; ND - no data.

GHS point of view: We note that each state has a very different tax composition, referring to the mix of sources of tax revenues. States such as Nevada and Washington have no or limited personal incomes. Comparisons between states are not apples-to-apples, but are mostly in the fruit category. Over the long-term, it seems likely, in our opinion that various types of tax rates will increase, thus weakening the uniformity of this data comparison in the future. This means that a state that increases its sales tax rate in late 2010 could report higher sales tax collections in 2011 yet still report budget cuts and weakness in overall state financial condition later in 2011. A nominal improvement in tax revenues over time may or may not occur along with improvements in state fiscal health, at least not in the same time periods, in our opinion.

Our interpretation of the Rockefeller Institute tax data suggests to us that certain states were recovering ahead of others in Q4, such as the New England-Middle Atlantic area, while the West (with the exception of the coastal West states), appears to be suffering from extensive tax revenue weakness. Tax revenue problems seemed to be occurring due to multiple influences in most of the states where the total tax trend was weakest in Q4 2009 (year over year percentage change comparison).

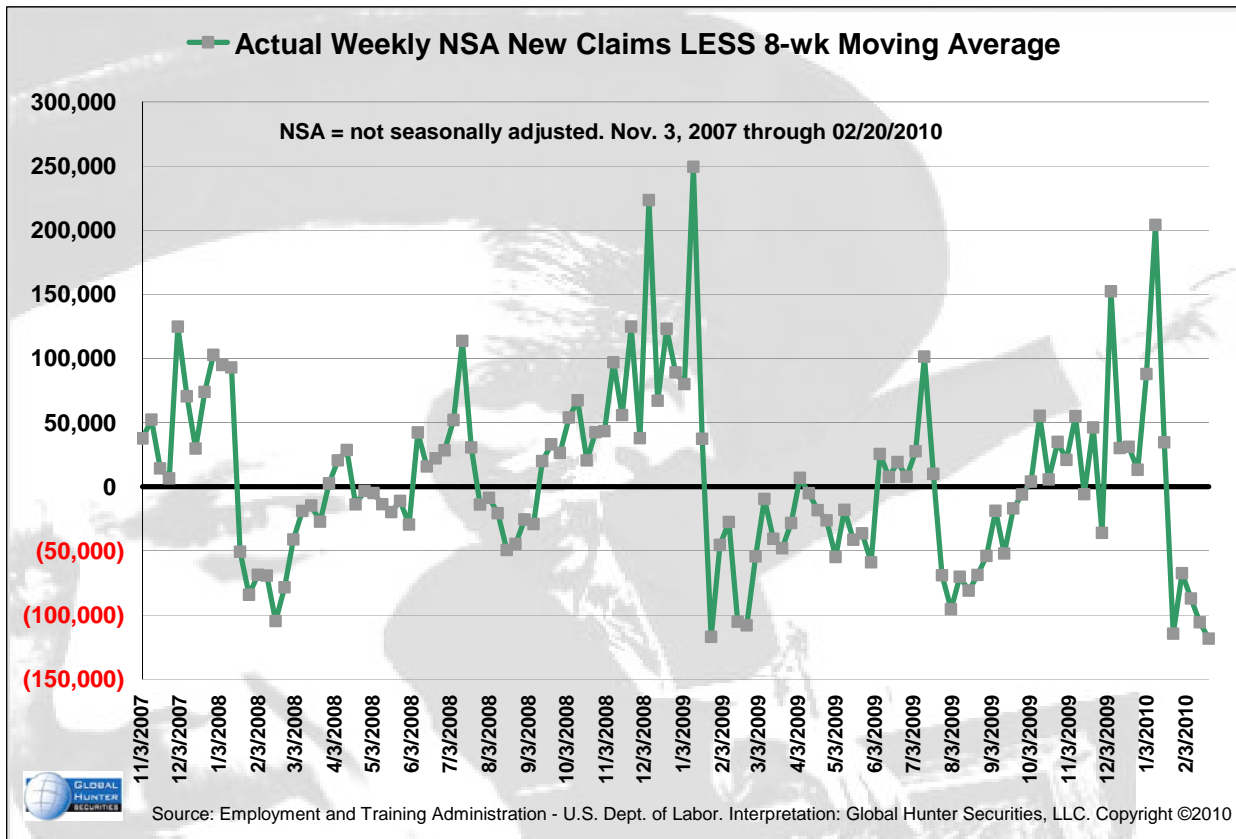
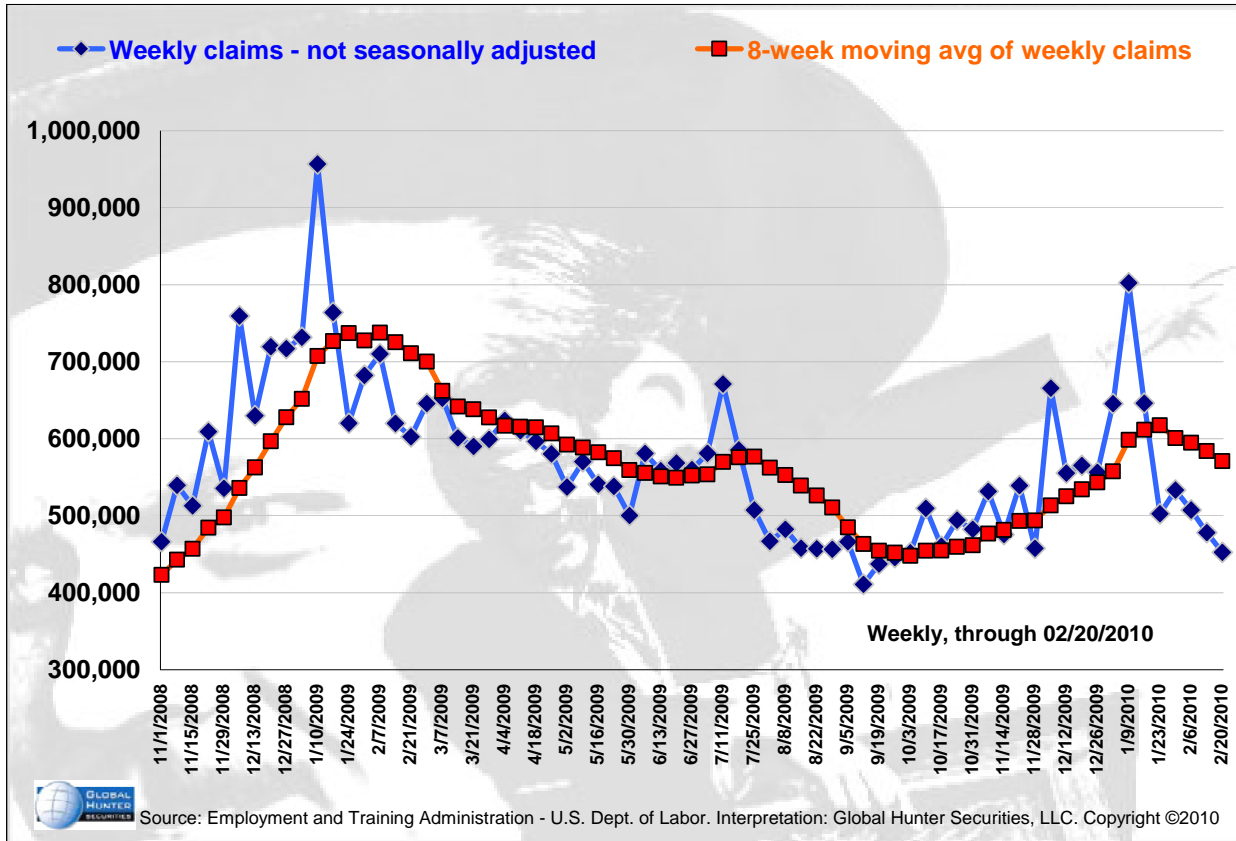
Some states posted substantial declines in corporate income tax (CIT) revenues like New York while concurrently posting relatively favorable personal income tax (PIT) trends. Some states, especially Georgia, were seen posting substantially weak tax revenues across all three major categories (PIT, CIT, and Sales).

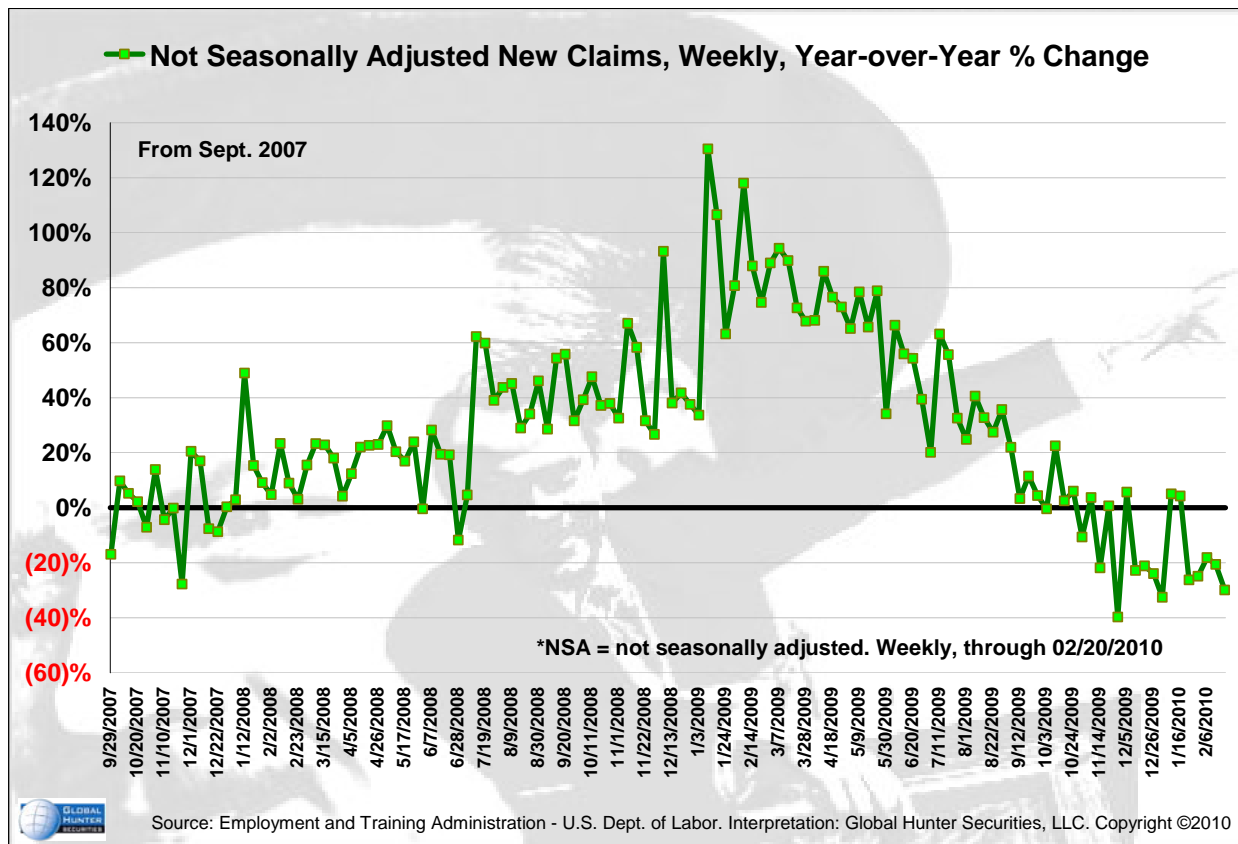
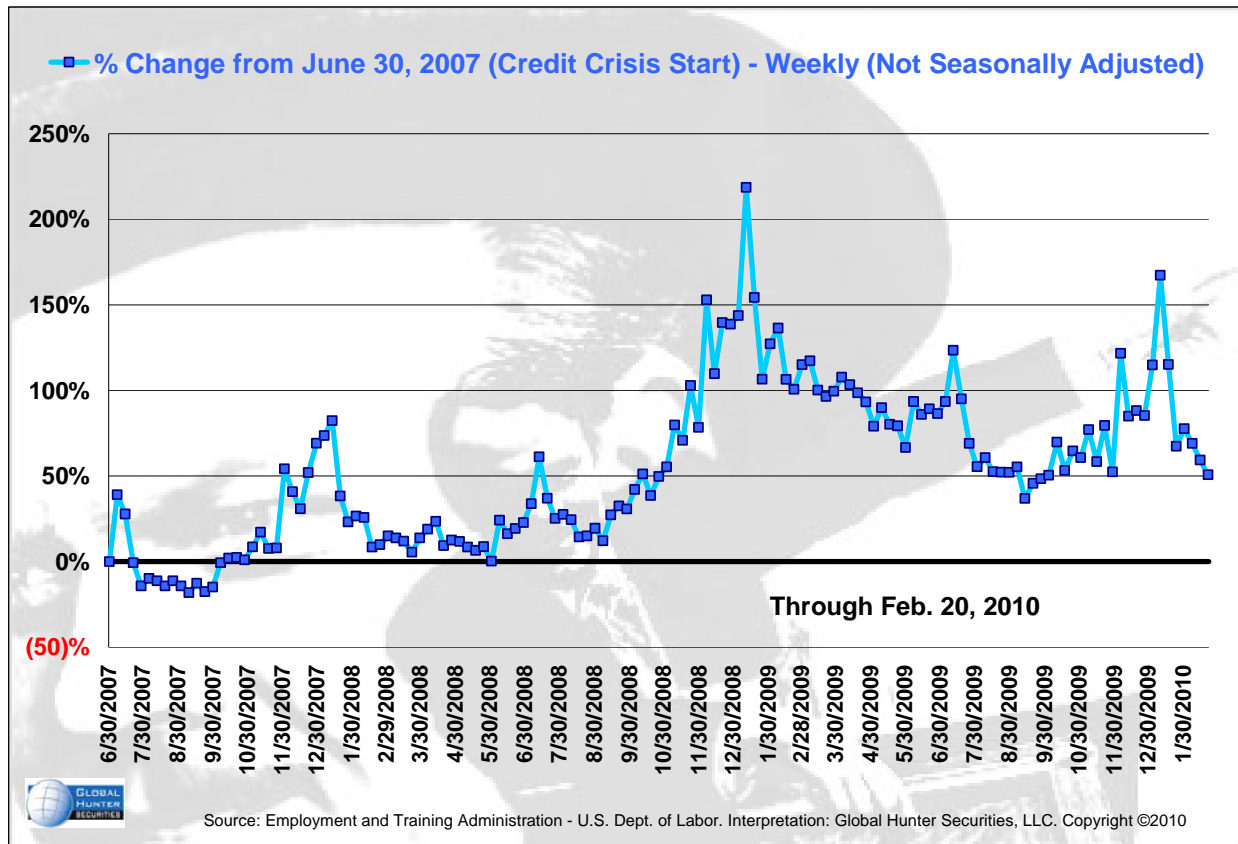
Q4 2009 year over year % change

Region	PIT	CIT	Sales	Total
Southwest	-16.3%	-74.3%	-13.0%	-18.1%
Rocky Mountain	-9.3%	-20.9%	-6.3%	-7.8%
Plains	-7.0%	-3.9%	-4.5%	-5.3%
Great Lakes	-5.1%	-15.1%	-4.7%	-5.1%
United States	-4.5%	-5.8%	-4.2%	-4.1%
Mid-Atlantic	-0.4%	-29.1%	-3.4%	-3.6%
Southeast	-5.0%	27.7%	-4.0%	-1.3%
Far West	-5.0%	7.6%	0.6%	-0.3%
New England	-4.3%	36.3%	5.4%	0.5%

Source: Individual state data, analysis by Rockefeller Institute.

Weekly Jobless Claims – Not Seasonally Adjusted Data Analysis





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