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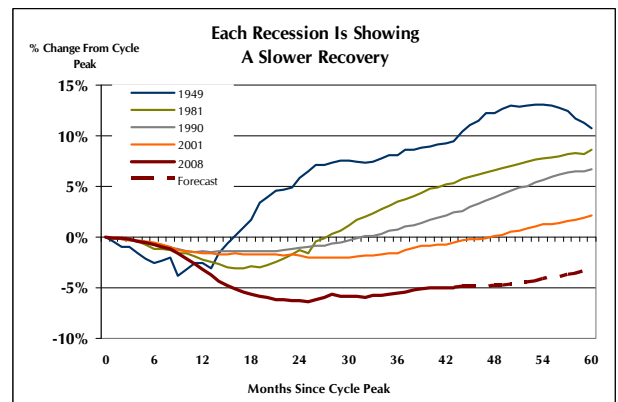
THE ECONOMY—IT'S ALL ABOUT JOBS

The key economic factor that impacts the value of real estate is jobs and job growth – considering that it is the tenant who leases space and pays the rent, which, in turn, creates value. If job growth is limited or weak, the outlook in the real estate market is less than optimal.

The lack of job growth in the U.S. dominates the national economic and political conversation today, both on Wall Street and on Main Street. The following is a brief outline of the key issues surrounding the job market.

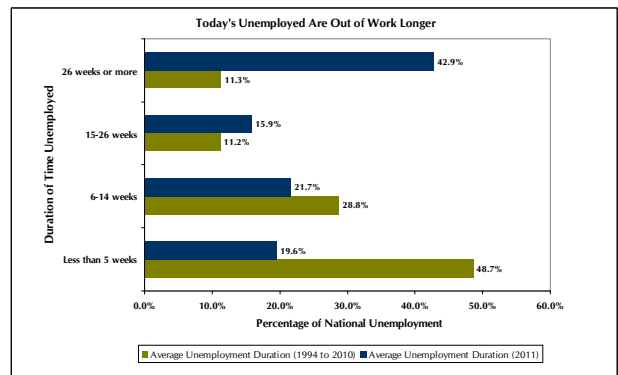
TODAY'S UNEMPLOYED ARE OUT OF WORK LONGER

More than two years after the recession ended, the unemployment rate remains staggeringly high at 9.1 percent. The depth of employment losses, at 8.6 million jobs, has made for a lengthy recovery (adjacent chart). Only 1.7 million jobs have been recouped, leaving employment five percent below its pre-recession level. This has not only cost workers in wages, but in skills. Yet the headline unemployment rate does not fully capture the severity of the unemployment experience for millions of Americans.



Source: Bureau of Labor Statistics, Moody's Analytics, ARA Research

Of the 14.1 million unemployed, nearly half have been out of work for more than six months. The average duration of unemployment is at its highest mark in history at more than 40 weeks. Meanwhile, the median duration of unemployment has edged higher to 21 weeks, but the discrepancy between the mean and average duration suggests that a small fraction of workers face severely long spells of unemployment. With long durations of unemployment, workers are less likely to find employment. Employers are more apt to hire workers who have been recently employed as their skills are less likely to have atrophied from joblessness. Furthermore, as unemployment spells become increasingly long, networks also deteriorate and reduce additional avenues of finding employment.

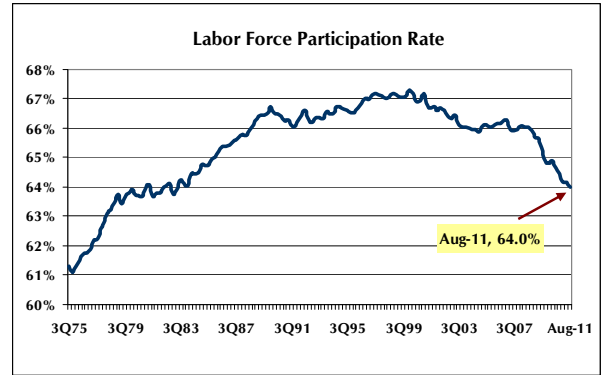


Source: Bureau of Labor Statistics



THE LONGER UNEMPLOYED, THE HARDER IT IS TO GET A JOB

The rise in the unemployment rate only tells part of the story. At 63.9%, labor force participation has declined to its lowest level since 1981. The fall in unemployment is worrisome, as less of the population is engaged in the economy and more people are reliant on other means of income, such as government transfer payments or support from family and friends. The decline in participation since the onset of the recession has not been due to a lack of job-searching. The average length of time an unemployed worker searched for employment before dropping out of the labor force was 20 weeks in 2010 compared to 8.5 weeks in 2007. Many of these workers would still accept a job if it were available, driving the broadest measure of unemployment, U-6, to over 16 percent.



Source: Bureau of Labor Statistics, Moody's Analytics, ARA Research

THE UNEMPLOYED AND THE UNDEREMPLOYED SUFFER LONG-TERM

What is not reflected in the headline unemployment rate is the number of workers who are underemployed. Given the severity of job cuts in this past recession and the slow recovery of those jobs, many workers have been reduced to part-time work. The number of part-time workers looking for full-time work has sky-rocketed more than 100 percent since the start of the past recession, which is a steep increase compared to the 28 percent and 47 percent jumps exhibited in the 1990 and 2001 recessions, respectively. With the number of long-term unemployed and under-employed at historic highs and the participation rate at a 30-year low, the labor market has even further to go than headline unemployment rate would suggest.

Source: Wells Fargo Economics Group August 11, 2011.

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