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Jobs, Unemployment Take Center Stage: Coming Week

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Update mentions that Abbott Laboratories has reached an agreement to acquire the pharmaceutical unit of Belgium's Solvay..

NEW YORK (TheStreet) -- The books are about to be closed on the third quarter, with bulls exhaling after a double-digit rate of return. The end of September, historically a terrible month for equities, is within sight and equities are still trading in positive territory.

Unfortunately, it won't be an easy road over the next five sessions. Between now and the end of the coming week, bulls will need to withstand a barrage of economic data, including the ever-important monthly government jobs report.

The nonfarm payrolls report, due Friday at 8:30 a.m. EDT, should show that the U.S. economy lost 188,000 jobs in September, according to a Reuters poll of economists. That would be the third straight month of moderating job losses, which market observers say is an important trend in moving towards a recovery.

"We may be losing jobs, but the correct trend is holding," said Robert Pavlik, chief market strategist with Banyan Partners. "The Street understands that employment is a lagging indicator. There may be some initial reaction to a higher unemployment rate. The market, though, has been trading on a payrolls trend that has been improving."

When the previous month's payrolls data were released, equity markets rallied despite an unexpected hike in the unemployment rate. This time around, economists are forecasting that the unemployment rate ticked higher this month to 9.8% from 9.7% in August. The fear for the bulls is that retail investors will focus on the negative aspects of the jobs report, while ignoring the moderating number of jobs lost.

"The unemployment rate is going to be the headline everywhere on Saturday morning," Pavlik said. "People can relate to that number better than manufacturing data or gross domestic product. Main Street will focus on the unemployment rate and will glance over the fact we could be down below 200,000 jobs lost per month."

Even with job losses moving in the right direction, job creation appears to be too far out on the horizon, and questions linger over how robust a recovery will be.

"The unemployment rate will continue to rise until we get job creation of 150,000," notes Paul Nolte, director of investments with Hinsdale Associates. "That's the zero line for maintaining the unemployment rate."

Nolte has muted expectations for a recovery in the U.S., and the still-weak job numbers only support his argument. "We're still operating under the assumption that we're in a recovery mode, but that recovery is tepid at best," he asserts. "We don't have the banking side participating or helping us out with loans for businesses. Loans are contracting. We don't have a healthy consumer at this point, either."

Pavlik argues that while the job numbers are undoubtedly important, investors will receive plenty of other supportive economic data in the coming week. Most notable, he says, will be the abundance of encouraging manufacturing data.

"The Street will pay the most attention to the nonfarm payrolls number, however, the Institute for Supply Management's manufacturing data may have a better read on what is actually occurring. It's an early indicator that the economy is improving," Pavlik said. "Manufacturing is the sector of the economy that is showing tremendous improvement, and there are a lot of data next week."

The first piece of manufacturing data will come Wednesday with the Chicago Purchasing Managers' index for September, which economists expect will rise to a reading of 52 from 50 in August. Thursday will see the release of the ISM's manufacturing index, which should push further into expansion territory in September at a reading of 54.9.

Traders will also be greeted next week by monthly auto sales data from **Ford** and **General Motors**, among others, as well as the August reading on construction spending, factory orders data for August and the final reading on second-quarter gross domestic product.

While Nolte admits manufacturing data have been on an impressive upswing, he downplays the significance given the continued weakness outside of the manufacturing sector.

"The government stimulus is really helping the manufacturing side, but we're not seeing it on the service side," Nolte said. "There's a big difference between to the two sides and manufacturing is a very small piece of the overall pie. It'll be interesting to see how the manufacturing comes out, especially after Friday's weak durable-goods orders."

Also on the economic front, investors will have to sift through reports on the Case-Shiller Home Price index for July, consumer confidence for September, personal income and spending for August, and pending home sales data for August. Several other jobs-related data will be released, too, including the **ADP** private sector employment report and weekly initial jobless claims.

Pavlik says that the initial jobless claims data, due Thursday at 8:30 a.m. EDT, should be another sign of encouragement for those looking for signs a recovery is taking hold, considering the better-than-expected report in the week prior.

"Hopefully, continuing claims can get below six million, although it will be tough to move that low," Pavlik said. "People could be falling off the ranks or they could be finding jobs, making it hard to gauge what is really happening in the labor market."

While the economic docket is packed, the corporate earnings slate is pretty thin. **Walgreen** , **Nike** and **Darden Restaurants**are due to report quarterly results on Tuesday, with very little else scheduled the rest of the week.

There is plenty else to watch outside of economic and earnings data.

Investors interested in the drug sector and mergers and acquisitions will consider **Abbott Laboratories'**, which reportedly agreement Monday to acquire the pharmaceutical unit of Belgian conglomerate **Solvay**.

Elsewhere, the recent strength in the dollar has put pressure on commodities, something that will bear watching in the coming week.

"From the commodity perspective, the dollar will play a huge role," Nolte said. "You've had the inverse with the dollar and equity markets with a very tight negative correlation. What's interesting is that the dollar decline has been considered a good thing for equity markets. That may be true over the short term, but I'm hard pressed to say that's a good thing over the long run."

Nolte will also be keeping an eye on movements in the bond market, as long-dated Treasury bonds have rallied very strongly, pressuring yields.

"If you look at the bond market, the **Federal Reserve** is keeping interest rates down. But if we were seeing a more robust recovery, we would see interest rates significantly higher than where we are today," Nolte said. "Unfortunately, we're not. The bond market is signaling a very tepid recovery."

Speaking of the central bank, several Fed officials will offer remarks in the coming week. Fed Chairman Ben Bernanke will speak on Thursday before a House Committee on Financial Services. Before that, Fed Vice Chairman Donald Kohn will take part in a panel discussion Wednesday at the Cato Institute while Fed Governor Daniel Tarullo will speak Wednesday before a Senate subcommittee on international trade and finance.

If traders do anything else, market observers say, they should enjoy the calm days when they before companies start reporting third-quarter financial results.

"Economic reports next week could put a kink into things, but for the most part we're looking ahead to earnings reporting season now that the quarter is drawing to a close," Pavlik said. "Then things get real interesting."

-- Written by Robert Holmes in New York.

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