

United States

Further strong job gains in July but labour market data shows signs of cooling

- **Non-farm payrolls up by 209,000 in July**
- **Unemployment rate rises to 6.2%**
- **Pay growth sluggish at 2.0%**

US job creation remained robust in July as the strong economic upturn seen in the second quarter looks to have spilled over into the third quarter. However, with companies reporting growing uncertainties to the business outlook, it's perhaps not surprising that the rate of job creation is showing sign of cooling and could continue to moderate in coming months.

From a policy perspective, the most important news from the employment report is the paucity of current wage growth. Even if the economy is booming, if wages are not rising at reasonable rate to help boost incomes, and there are no signs of worrying inflationary pressures in the labour market, it's hard to see how an argument for raising interest rates can be won.

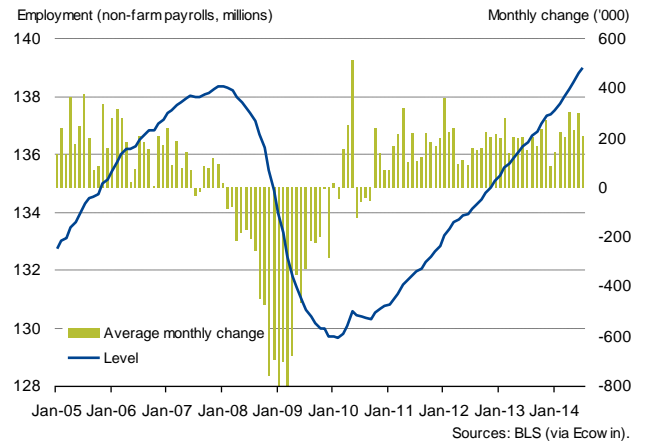
Job creation slows and jobless rate rises

Non-farm payrolls rose by 209,000 in July, falling below expectations of a 233,000 rise but nevertheless building on an upwardly revised 298,000 growth surge in June. Data for April and May were also revised slightly higher, meaning there have been 1.609 million new jobs crated so far this year.

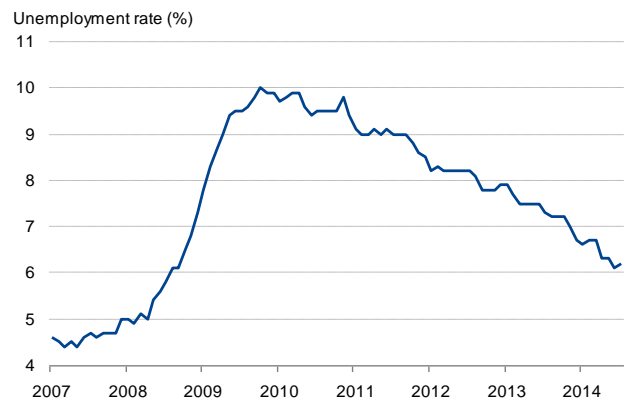
The private sector added 198,000 new jobs, the lowest since January. It was not all bad news though: manufacturers took on 28,000 extra workers, the largest increase since last November, and construction hiring jumped by 22,000. The main source of the cooling labour market was therefore the services economy, where the 140,000 rise was the weakest since January.

The unemployment rate rose from 6.1% to 6.2%, but this disappointment needs to be looked at in the context of more people moving into the labour market, which is often an encouraging sign that more people are willing to find work.

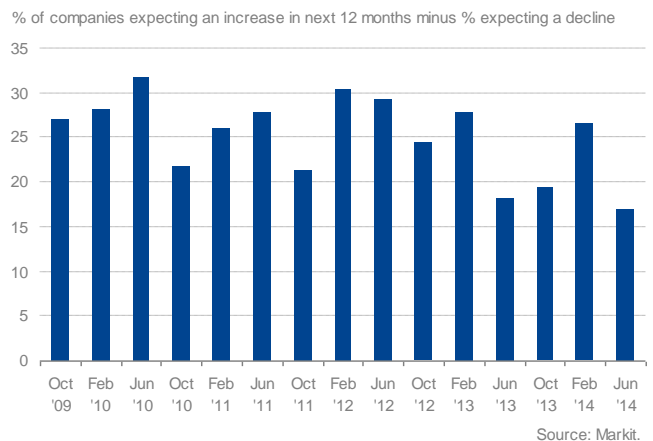
Non-farm payrolls



Unemployment



Business Outlook survey: US hiring intentions



There is clearly a high degree of slack left in the labour market, however, as average employee earnings rose just 2.0% on a year ago.

Surveys also point to hiring slowdown

The employment report comes on the heels of PMI surveys, which indicated that strong second quarter economic growth persisted into the third quarter but which also found that the rate of job creation cooled.

The economy grew at a 4.0% annualised rate in the second quarter, and the July [flash Markit PMI surveys](#), which cover both manufacturing and services, have shown business activity growth to have held at a post-recession high in July, boding well for the third quarter.

However, the flash PMI surveys for July also registered the weakest rate of job creation since April, and Markit's Business Outlook Survey showed hiring intentions fell to a post-crisis low in the summer. The number of companies expecting to increase their staffing levels over the next year outnumbered those expecting a decline by 17%, down from 27% earlier in the year.

While some of the easing in the expected pace of job creation likely reflects some anticipated cooling of the economy as interest rate rises grow nearer, companies participating in the PMI survey also reported a cautious approach to hiring due to the escalating situations in Russia and Gaza as well as uncertainties about the potential cost impact of 'Obamacare'.

Fed discussions to intensify

The employment outlook therefore looks to be one of further robust job creation in coming months, but with some moderation in the rate of job creation compared to the first half of the year. Job gains should nevertheless remain sufficiently strong to help bring the unemployment rate down further and remove excess slack in the labour market.

These numbers mean discussions at the Fed about the timing of the first interest rate hike look set to intensify. However, while the robust pace of economic growth means more dissenters in favour of tighter policy may start to appear after Charles Plosser broke ranks this week, the majority look likely to focus on the signs of persistent slack in the labour market and meagre wage growth.

Unless wage growth revives in coming months, the current market consensus of rates not rising until the second quarter of next year therefore still looks realistic.

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