

United States

Strong labour market data add to signs of economy enjoying growth spurt

- **Non-farm payrolls up by 288,000 in June**
- **Unemployment rate drops from 6.3% to 6.1%, lowest since September 2008**
- **Pay growth little-changed at 2.3%**

Improving official labour market data add to indications that the US economy is enjoying a strong growth spurt in the second quarter. The improvement in the data flow in June suggests that the economy has good momentum as we move into the second half of the year. However, with the economy having contracted sharply in the first quarter of the year, growth for 2014 as a whole is likely to disappoint, adding to the belief that the Fed will be in no rush to hike interest rates.

Non-farm payrolls rose by 288,000 in June, with upward revision to prior months painting an even stronger than previously thought picture of the labour market over the first half of 2014. So far this year, employment has risen by 1.385 million.

Private sector payrolls rose by 262,000, including a 236,000 rise in services, a 16,000 increase in manufacturing and a 6,000 uplift in construction.

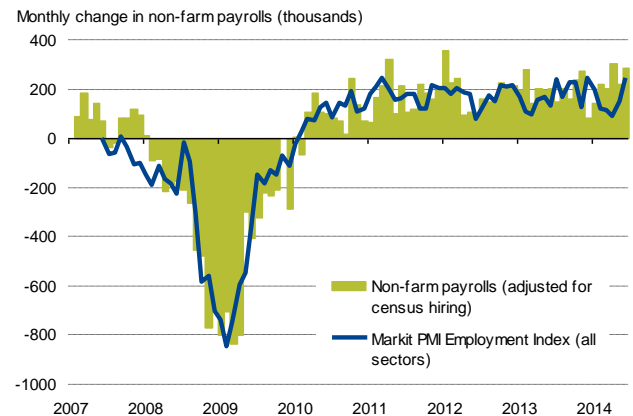
The strong rate of job creation helped to bring the unemployment rate down from 7.5% this time last year to 6.1% in June, its lowest since September 2008.

Wages in the productive industries, however, grew by a modest 2.3%, showing a similar rate of increase to that which has been seen over the year-to-date.

The employment report follows strong June readings from Markit's PMI surveys, which showed manufacturing output rising at the strongest rate for just over four years and service sector activity growing at the fastest rate seen since the recession. The surveys point to GDP rising at an annualised rate of around 4% after the 2.9% annualised collapse seen in the first quarter.

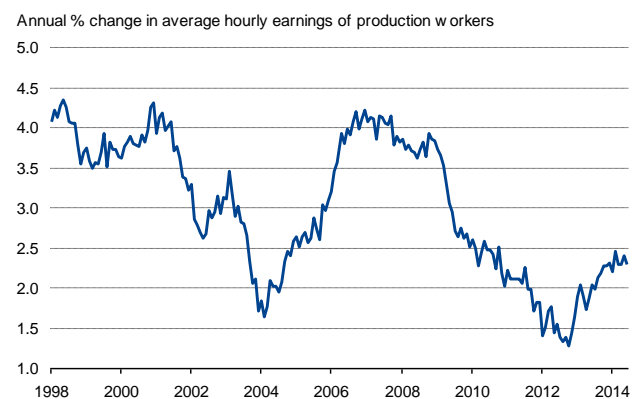
Across both surveys, the PMI data pointed to the fastest rate of private sector job creation since the economy pulled out of recession.

Non-farm payrolls

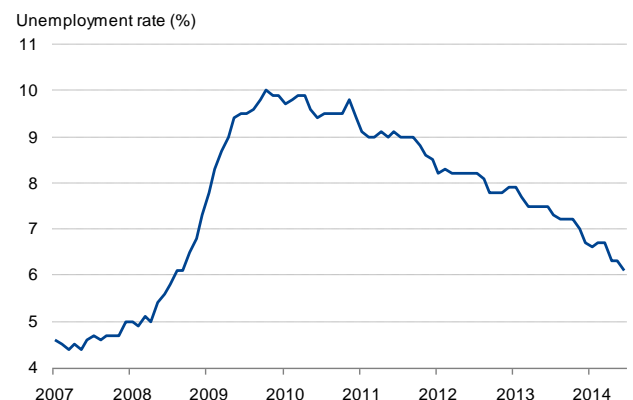


Source: Markit, Bureau of Labor Statistics.

Wage growth, production



Unemployment



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The economy is therefore playing along the lines envisaged by policymakers, with the underlying robust health of the economy driving a reassuringly strong second quarter upturn.

The PMI and labour market numbers therefore add to the growing welter of data which suggest that the US is not just rebounding from the weather-related disruptions seen at the start of the year, but has moved up a gear as demand has shifted higher: the PMI surveys showed new order growth surging higher in June.

Fed policymakers will be encouraged by the rate of job creation and the surveys, but Fed Chair Yellen has stressed that they are in no rush to start raising interest rates. Wage growth remains weak, suggesting a lack of underlying inflationary pressures. The economy, while growing strongly, will also ultimately end up showing a disappointing performance for 2014 as a whole, due to the poor start to the year. Even if growth averaged an annualised 4% in the second, third and fourth quarters, GDP for the whole of 2014 would still only be 1.9% higher than 2013.

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