

United States

Employment surpasses pre-recession peak, but Fed awaits pay rise

- **Non-farm payrolls rise by 217,000, surpassing pre-recession peak**
- **Unemployment rate holds steady at 6.3% despite rise in labour market participation**
- **Pay growth remains weak, but edges up to 2.4%**

The labour market was a little stronger than anticipated in May, according to official data, bringing yet more good news on the brightening health of the US economy. However, with wage growth remaining subdued, the data do little to change the dovish outlook for interest rates.

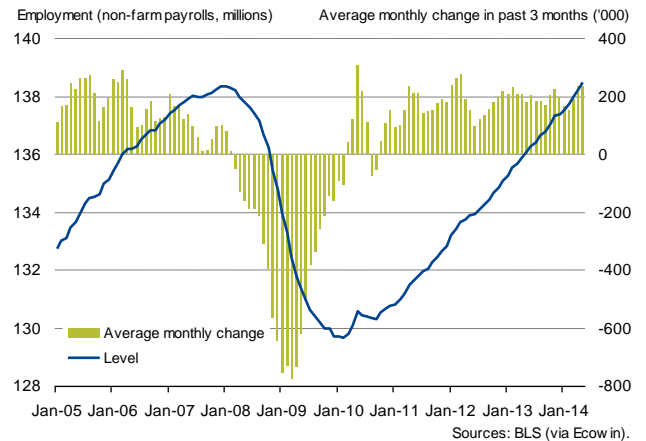
Non-farm payrolls rose by 217,000. The market, according to Reuters polls, had been expecting a 218,000 increase. However, the shortfall was offset by the news that private sector employment jumped by 217,000 against expectations of a 210,000 rise. Employment rose in manufacturing, services, retail, construction and the government sector.

Although the April tally of 288,000 jobs being created was revised down to 282,000, the total payroll count has now surpassed its pre-recession peak.

The unemployment rate meanwhile held steady at 6.3%, but that defied expectations of a rise to 6.4% and is a five-and-a-half year low, which is all the more impressive as there was a 192,000 increase in the number of people participating the labour market in May who had previously left.

The outlook for further job creation in coming months is also good as the economy looks to have grown strongly in the second quarter. Markit's all-sector PMI for May hit its highest level since March 2012, indicating that business activity is rebounding strongly. GDP looks set to rise at an annualised rate of approximately 3.0% or more in the second quarter after the 1.0% weather-related decline in the first three months of the year. The May PMI surveys also showed that job creation across manufacturing and services combined rose the highest seen since January.

Non-farm payrolls



Wage growth



Unemployment



Continued over ...

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.

Fed encouraged, but awaiting wage rise

The Fed therefore looks set to continue to taper its asset purchases. Furthermore, with all 8.7 million jobs lost during the recession now recouped, the economy more than 6% larger than its pre-crisis peak and the second quarter set to see impressive gains in GDP and employment, one might expect rates to start rising soon.

However, the timing of the first rate hike remains highly uncertain, and will most likely be driven by wages growth. As we are seeing in the UK at the moment, policymakers are content to tolerate strong economic growth because wage growth remains historically subdued, posing no major threat to inflation. Wages among production workers grew at an annual rate of just 2.4% in May, up from 2.3% in April and the joint-strongest since October 2010, but this is still well below pre-crisis rates, when 3.5-4.5% rates of increase were common. Until wage inflation picks up further, policymakers will be in no rush to raise rates.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com

Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited.