

United States

Buoyant job creation adds to likelihood of early Fed 'tapering'

- **Non-farm payrolls continue to rise solidly, adds to likelihood of Fed tapering**
- **Unemployment rate stuck at 7.6% and signs of weaker economic growth muddy the picture**

A tapering of the Fed's massive quantitative easing program is looking increasingly likely to start in the next few months after much better than expected job creation in the second quarter. However, the sunnier picture of the economy is not without the odd cloud, notably a stubbornly high jobless rate and signs of business activity growth slowing at home and abroad. The Fed will be watching the dataflow carefully and may wait for all indicators to be pointing firmly in the right direction before withdrawing any stimulus.

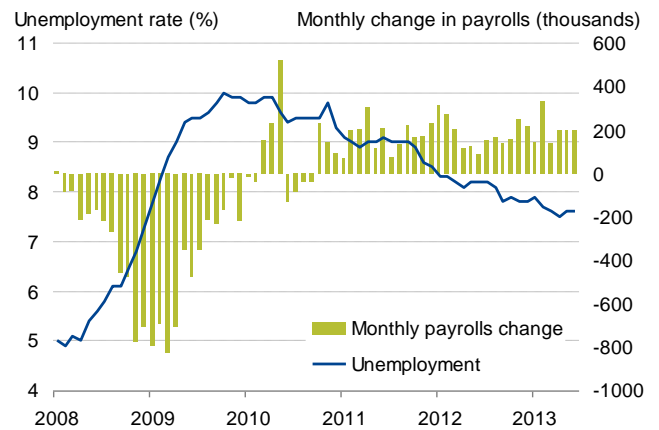
US non-farm payrolls rose more than expected in June, up by 195,000. Private sectors payrolls surged 202,000 higher. Economists were on average expecting a 165,000 increase in June, driven by a 175,000 rise in private sector payrolls. Adding to the upbeat picture was an upward revision to previous months' numbers, with an extra 70,000 jobs added in the prior two months. May saw a 195,000 increase compared to a prior estimate of 175,000, while April's figure was boosted from 149,000 to 199,000.

These buoyant numbers suggest that companies remained keen to hire in June, adding to the view that the Fed will start to ease back on its quantitative easing, possibly as early as September.

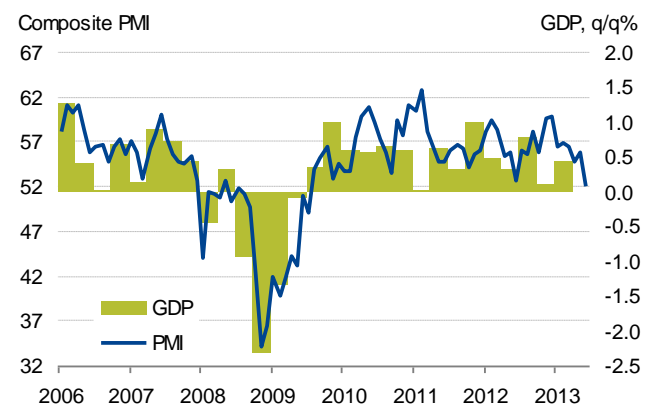
However, policymakers will be disappointed to have seen the unemployment rate stick at 7.6% despite the additional hiring. The Fed's intention to start tapering its \$85bn per month asset purchases by the end of the year is dependent on the unemployment rate falling from its current 7.6% to 7.0%. A rate of 6.5% would represent the threshold for rates to start rising.

The Fed will also be worried by signs from the PMI business surveys that the pace of economic growth slowed sharply in June, both in the US and globally. The downturn in the surveys means payroll growth could weaken unless demand revives.

Non-farm payrolls and unemployment

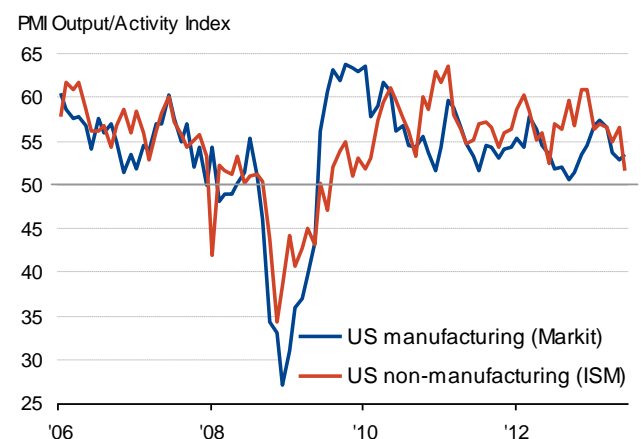


US PMI surveys* and GDP



* We use a weighted combination of Markit Manufacturing PMI Output Index and ISM non-manufacturing business activity index.

Sector PMI Output Indices



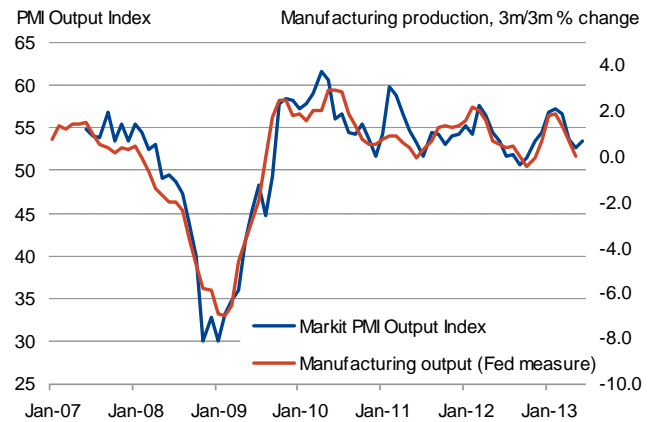
Growth slowdown

The composite PMI for the US fell to its lowest since July 2009, suggesting that the near four-year old recovery lost considerable momentum during the second quarter.

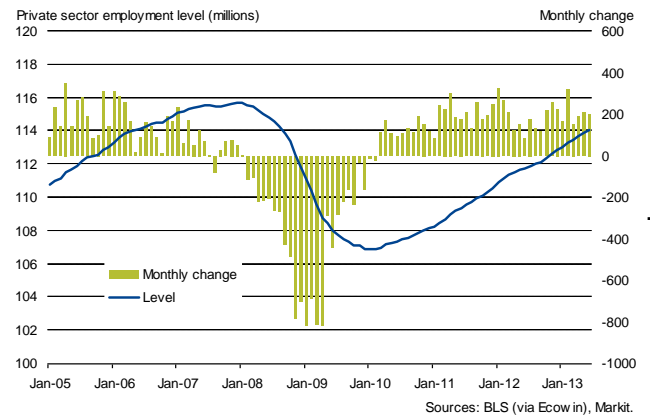
Markit's PMI for manufacturing indicated a slight uptick in the rate of output growth, but that still left the pace of expansion barely higher than May's seven-month low and well down on the pace seen earlier in the year. Moreover, the [headline PMI index for manufacturing](#), which combines other indices – notably new orders and employment – with output to provide an overview of the health of the manufacturing sector, slipped to an eight-month low. Export orders fell at the steepest rate since August 2009 and hiring came to an end after 40 successive months of job creation.

In the non-manufacturing sector, the ISM's measure of business activity growth slumped in June after robust expansions in prior months, dropping to the slowest since November 2009. Inflows of new business almost stagnated, registering the weakest rise since July 2009, though employment growth picked up, which suggests some of the slowdown may prove temporary.

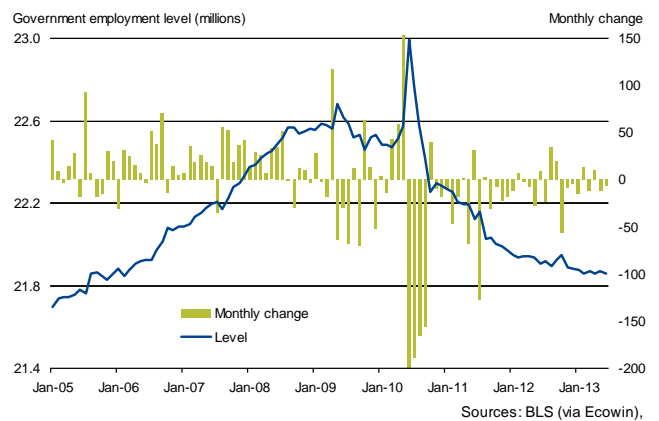
US manufacturing growth has slowed



Private sector jobs



Government jobs



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