

US labour market

Mixed jobs report shows robust job creation doing little to combat high unemployment

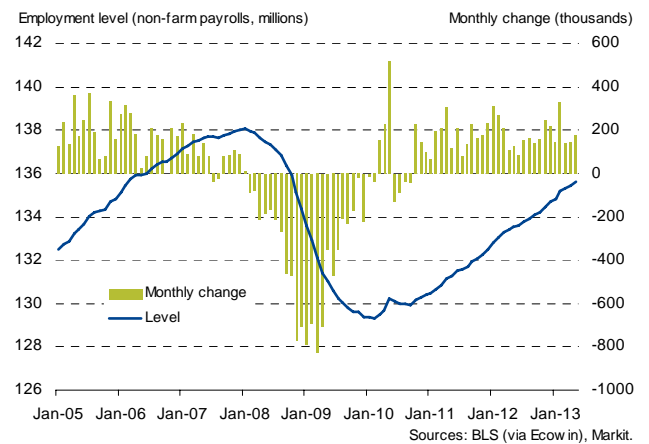
- **Non-farm payroll report beats expectations, but unemployment rate edges higher**
- **Mixed picture suggests Fed will be in no rush to taper stimulus**

US non-farm payrolls rose 175,000 in May, higher than expectations of 163,000. The caveat is that these numbers are subject to an error of plus or minus 100,000, but this initial reading is positive news for the US economy, especially as 3,000 government jobs were cut during the month. Ongoing economic growth is creating jobs at a reasonable rate, with an average of 172,000 over the past 12 months. The downside, of course, is that the better than expected number will stir up increased talk of when the Fed might start to taper its current \$85bn per month asset purchase programme, which may cause more market volatility.

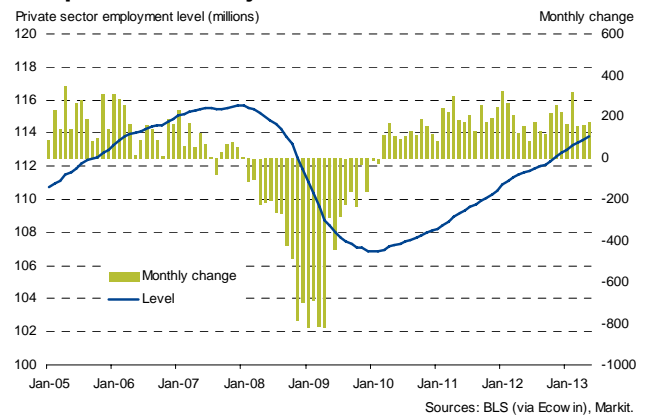
However, against this, the rate of unemployment was “essentially unchanged” at 7.6% according to the Bureau of Labor Statistics (though in fact crept up from 7.5%), the number of unemployed held steady at 11.8 million and recent data, such as the PMI surveys, have shown that the economy could have slowed in the second quarter. Manufacturers in fact cut employment for the third month running in May. While only a small part of the overall economy, the goods-producing sector remains a key bellwether of the health of the wider economy.

As the labour market often lags behind changes in output, the case for scaling back policy stimulus is by no means clear cut. The Fed is likely to watch the incoming data flow on business activity and demand closely over the coming months before making clear signals on policy changes, and will probably want to see the actual rate of unemployment come down further before being comfortable that a meaningful and sustainable recovery is in place.

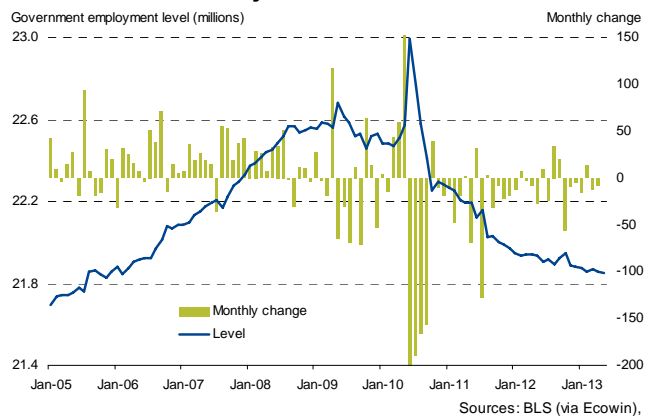
Non-farm payrolls



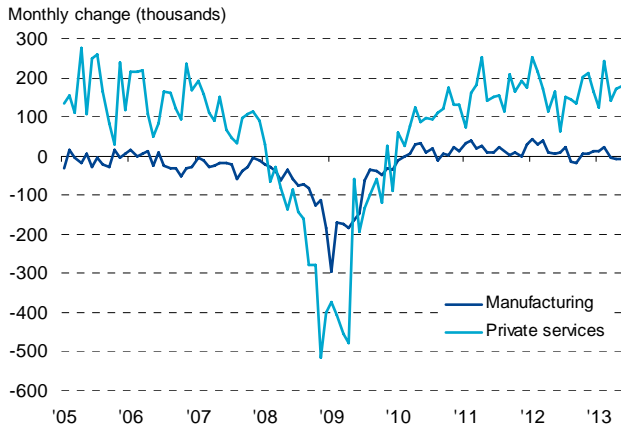
Total private sector jobs



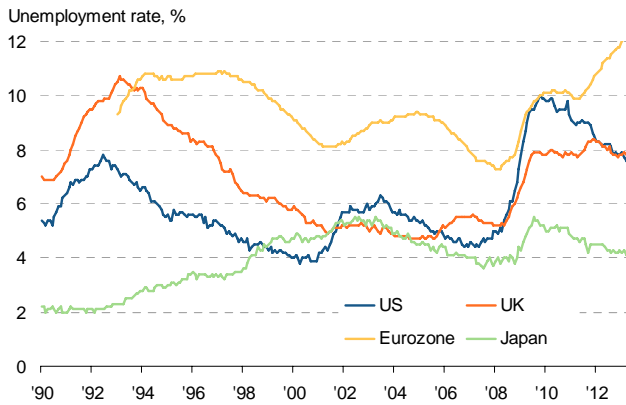
Government sector jobs



Manufacturing and private service sector jobs



Unemployment rates compared



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