

United States

Solid growth of payrolls fails to prevent rise in jobless rate

- **Non-farm payrolls up 157,000 in January with upward revisions to prior months**
- **Unemployment rate rises to 7.9%**

A solid gain in US employment provides welcome reassurance that the US economy is healthier than the surprise fall in fourth quarter GDP and is not at risk of a renewed recession. However, policymakers will no doubt remain unimpressed at the pace of the job market recovery, suggesting there is no end in sight for Fed stimulus.

Non-farm payrolls rose by 157,000 in January, just below market expectations. The Labor Department report also showed upward revisions to both November and December payrolls totals, meaning an extra 127,000 more jobs were created than previously thought in those two months.

The details of the January release were also encouraging, with 166,000 private sector jobs created while government payrolls fell by 9,000, indicating that business growth is driving the job market upturn.

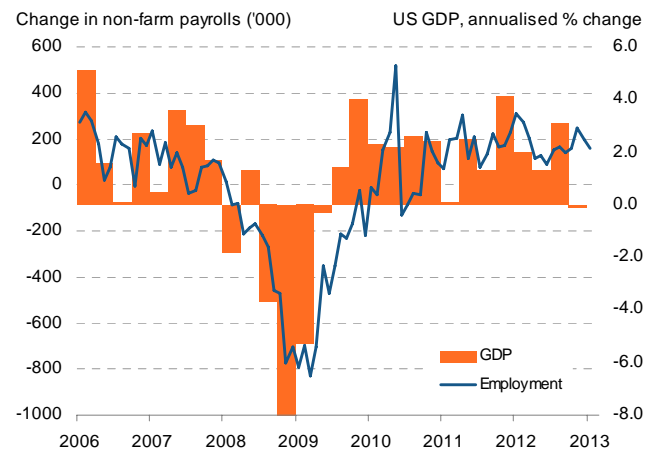
Importantly, the employment data provide reassuring evidence that the US is not falling back into recession, fears of which were raised by the recent release of GDP data. Both employment and GDP data in fact provide a consistent message of an economy growing at a reasonable but far from spectacular pace. While the headline GDP number indicated that the economy stalled in the final quarter of last year, with annualised growth of the economy tumbling from 3.1% in the third quarter to -0.1%, the deterioration could be largely blamed on a steep fall in defence spending, destocking by companies and the impact of Hurricane Sandy. Underlying demand, however, continued to expand, as reflected by stronger growth of both consumer spending and business investment.

However, although an average of 200,000 jobs have been created in each of the past three months, stronger growth is needed (at least 250,000) to make up for population growth and therefore bring down unemployment. The overall rate of joblessness in fact

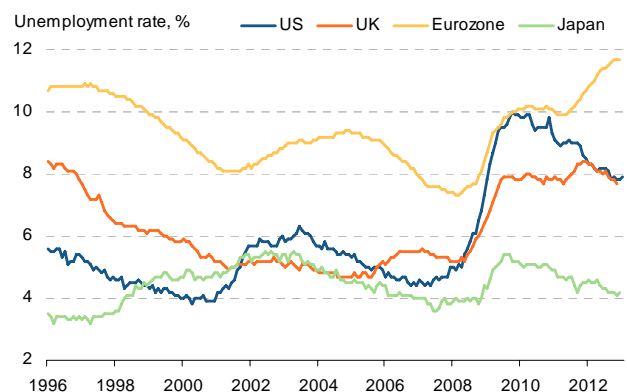
edged higher in January, up from, 7.8% to 7.9%, as a result.

While the ongoing reasonable pace of job creation will be of some comfort to policymakers, the uptick in the unemployment rate means there remains no end in sight to the Fed's asset purchase programme.

GDP and payrolls



Unemployment rates



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