Markit Economic Research

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United States

Non-farm payrolls smash expectations in April, but recovery worries persist

- **Non-farm payrolls show largest gain since January 2012**
- **Unemployment rate fall to 5 1/2 year low of 6.3%**
- **Data provide reassurance after weak GDP data, but worries persist due to stagnant wages and falling participation rate.**

After GDP data showed a stalling US economic recovery in the first quarter, upbeat labour market numbers bring reassuring news on the health of the US economic recovery at the start of the second quarter. The jobs data vindicate the Fed's decision to consider any weakness on the economic data earlier this year to be primarily a consequence of extreme weather.

Non-farm payrolls smashed expectations, up 288,000 in April to show the largest gain since the start of 2012. The unemployment rate meanwhile plummeted from 6.7% to a five-and-a-half year low of 6.3%, according to the Bureau for Labor Statistics. The market consensus, according to Thomson Reuters, was for payrolls to rise by 210,000 and a jobless rate of 6.6%.

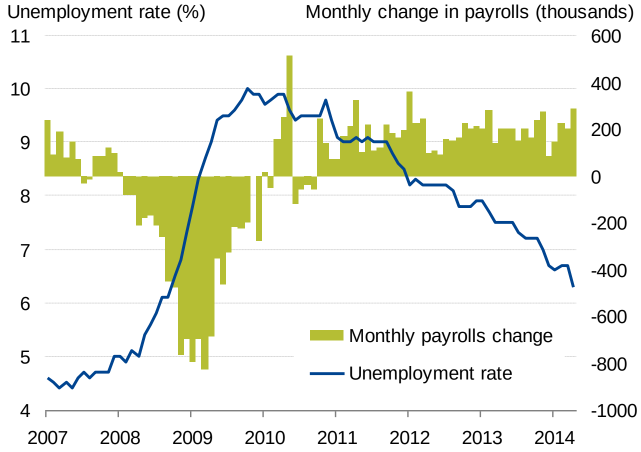
This was not just a one-off: over the last three months, the average monthly non-farm payroll gain of 238k has been the largest since the first quarter of 2012, the April 288k increase followed rises of 203k in March and 222k in February.

Private sector payrolls rose by 273k, taking the total in the year-to-date up to an impressive 842k.

Not all good news

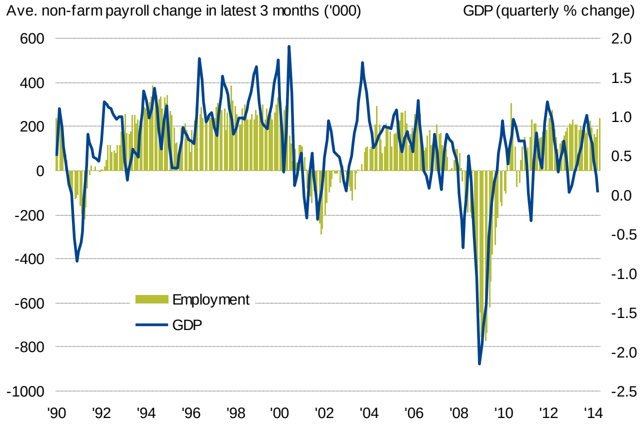
There were some downsides: the fall in the unemployment rate was largely driven by a decrease in the participation rate, and the household survey contrasted with the employer survey by showing a slight drop in employment during April after strong growth in prior months. Perhaps most importantly from a policy perspective, average hourly earnings were unchanged. The lack of wages growth highlights a relatively high rate of unemployment, meaning plenty of slack still exists in the economy, and also points to weak underlying consumer spending growth.

Unemployment rate & monthly change in payrolls



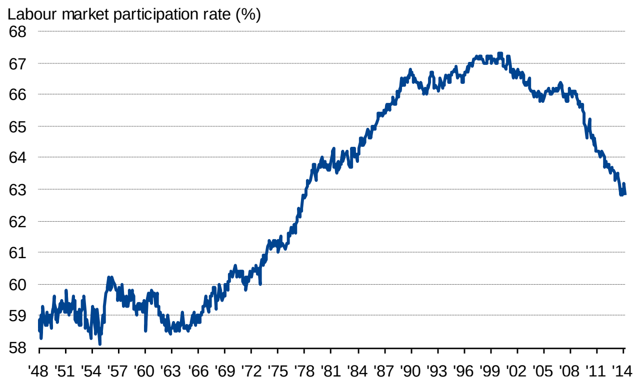
Source: Ecowin

GDP and employment growth rates compared



Source: Ecowin

Labour market participation rate



Source: Ecowin

There are signs that the pace of job creation will start to moderate. For sure the 0.1% annualised rate registered by official GDP in the first quarter is insufficient to sustain anything like the average pace of job creation seen throughout the past two years (see chart). Even the more buoyant PMI survey data, which have typically provided a reliable guide to the trend in the non-farm payrolls data, suggest that the underlying pace of private sector job creation has eased from over 200,000 at the start of the year to just over 100,000 as the rate of economic growth has cooled.

While the flash PMIs for April indicated that the underlying pace of economic growth has been stronger than the official GDP numbers so far this year, the survey data suggest that the pace of expansion has slowed since late last year to around 2.0% at the start of the second quarter, a rate of growth which historically generates around 100,000 extra jobs per month. On this basis, the surprising 288k rise in April may be the best we see for a while.

The overall picture from the employment report is therefore one that adds to the sense that Fed talks will increasingly move towards the timing of the first rate hike and away from worries about whether the QE taper could cause the recovery to stall, but the first rate rise still looks some way off.

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