Markit Economic Research

10/01/2014

United States

Unemployment rate hits five-year low, but hiring disappoints

- **Rate of unemployment falls from 7.0% to 6.7%**
- **Non-farm payrolls rise by just 74K against expectations of 196k**
- **Survey data suggest job growth will revert to stronger pace seen prior to December**

A steep fall in unemployment in December ups the odds of further Fed tapering. Although non-farm payroll growth was disappointingly low, one month of weakness doesn't represent a trend and, with other economic indicators showing robust growth toward the end of last year, talk will intensify about when interest rates should start rising if we see a resumption of robust employment growth in January.

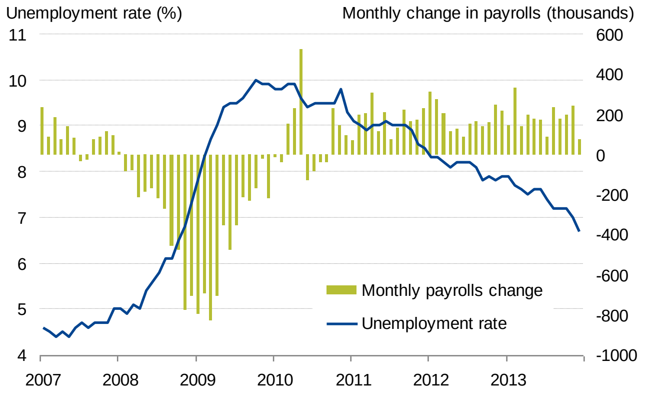
There were mixed signals on the labour market in December: unemployment fell to a five year low of 6.7% in December, down sharply from 7.0% in November. However, that decline was in part due to people leaving the labour force (the participation rate was the lowest since 1978), and non-farm payrolls rose a far weaker than expected 74k, the smallest increase since the start of 2011. The markets were expecting a 196k rise in payrolls and the unemployment rate to hold steady at 7.0%.

However, November's 203k payroll increase was revised up by 38k, meaning 515k jobs were added in the fourth quarter compared to 502k in the third quarter. With December's figures possibly distorted downwards due to the cold weather, and surveys suggesting the economy ended 2013 on a solid footing, a rebound in the payroll numbers in January should be expected.

A further tapering of the Fed's asset purchases in January therefore still looks to be the most likely outcome of the next FOMC meeting.

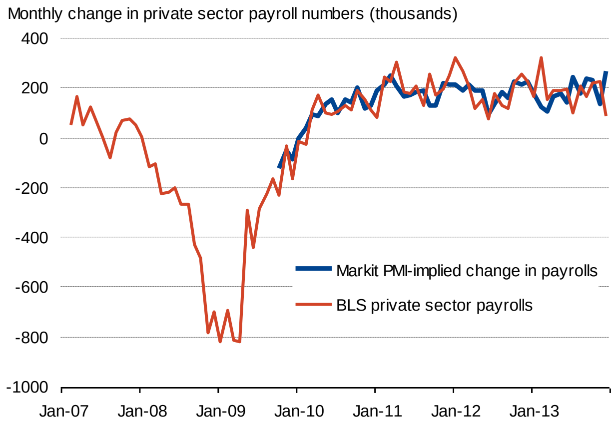
Given the fall in the jobless rate to its lowest since October 2008, shifting closer to the Fed's threshold of 6.5%, which it wants to see reached before considering tighter policy, talk will intensify about when interest rates will start to rise. Futures markets are pricing in a more than 50% chance of the first hike taking place in early 2015. Currency markets will no doubt be fixated on who will be first to raise interest rates: the Fed or the Bank of England?"

Employment growth and the unemployment rate



Source: Bureau of Labor Statistics.

Private sector hiring and the Markit PMI



Source: Markit, Bureau of Labor Statistics.

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