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Flash

Friday, 15 January 2016

# Update US Labour Market Dashboard

## Strong job growth reduces slack further

As expected, the Fed started its tightening cycle in December by raising interest rates by 25 basis points. The Committee however warned that further increases in the federal funds rate will be gradual and depend on the economic outlook. The Fed dots suggest that four rate hikes can be expected this year, which is in contrast with markets' expectations (which point to only two rate hikes this year). Developments in the labour market and in inflation will be crucial for the Fed's policy going forward and will decide on the pace of further policy tightening. Ahead of the January 26 and 27 FOMC meeting, we provide you with an update of our Labour Market Dashboard. **Despite further positive labour market developments, it is too early to expect a further rate hike already this month.**

**Payrolls growth accelerated sharply in the fourth quarter of 2015** with 851 000 extra jobs created during the last three months of the year. The unemployment rate however stabilized at 5.0%, only marginally above the Fed's full employment rate target of 4.9%, but as people are returning to the labour force the downtrend in the unemployment rate might have slowed. **Although the headline unemployment rate is close to its target, the broader U6 unemployment rate is still significantly above, pointing to more slack in the labour market than suggested by the headline unemployment rate**. Also long-term unemployment remains relatively high, suggesting that it is difficult for those people to find a new job. Encouragingly, the participation rate picked up further, as people are returning to the labour force, although the pick-up remains very limited for now, probably hindered by structural factors. **Finally, also encouraging news from the wage data**. Wage growth is finally starting to accelerate, albeit slowly and remains well below the Fed's target of 3.5% Y/Y. The JOLTS job report remained strong in November, but the high number of job openings fails to really boost hiring further.

A quick look at the table below confirms that **most recent labour market data were encouraging**. From our ten indicators, four improved compared with the month before, five stabilized and only one (the long-term unemployed share) weakened. **Three indicators (payrolls, job openings rate and lay-offs rate) have now met our self-defined target.** Of the remaining seven indicators, three are very close to our target (unemployment rate, hires rate and quits rate). Looking at the remaining four, three (U6 unemployment rate, long-term unemployed share and average hourly earnings) are definitely moving in the right direction. Only the participation rate fails to really pick up, but this is due to demographical factors. **While there is still some slack in the US labour market, at the current pace of job growth, it is diminishing rapidly.**

**Joke Mertens, KBC Dealingroom**

| | Target | Worst | Last | Previous | Diff. With Target | Latest Development | 3m Moving Average |
|---|---|---|---|---|---|---|---|
| Payroll Employment | **161,8** | -824,0 | **292,0** | 252,0 | 130 ↑ | 40 ★ | 228,7 |
| Unemployment Rate (U3) | ★ **4,9** | 10,0 | **5,0** | 5,0 | 0,1 → | 0 | 5,0 |
| U6 Unemployment Rate | **8,8** | 17,1 | **9,9** | 9,9 | 1,1 → | 0 | 9,9 |
| Long-term Unemployed Share | **19,1** | 45,5 | **26,3** | 25,7 | 7,2 ↓ | 0,6 | 26,2 |
| Participation Rate | **66,1** | 62,4 | **62,6** | 62,5 | -3,5 ↑ | 0,1 | 62,5 |
| Job Openings Rate | **3,0** | 1,6 | **3,7** | 3,6 | 0,7 ↑ | 0,1 | 3,7 |
| Job Hires Rate | **3,8** | 2,8 | **3,6** | 3,6 | -0,2 → | 0 | 3,6 |
| Job Quits Rate | **2,1** | 1,3 | **2,0** | 2,0 | -0,1 → | 0 | 2,0 |
| Layoffs/Discharges Rate | **1,4** | 2,0 | **1,2** | 1,2 | -0,2 → | 0 | 1,2 |
| Average Hourly Earnings Y/Y | ★ **3,5** | 1,5 | **2,5** | 2,3 | -1,0 ↑ | 0,2 | 2,4 |

Target = our self-defined target is the average of the 2003-2007 period

★ Fed target: The Fed estimates the unemployment rate with maximum sustainable employment is currently around 4,9%. Therefore we define this as our target.

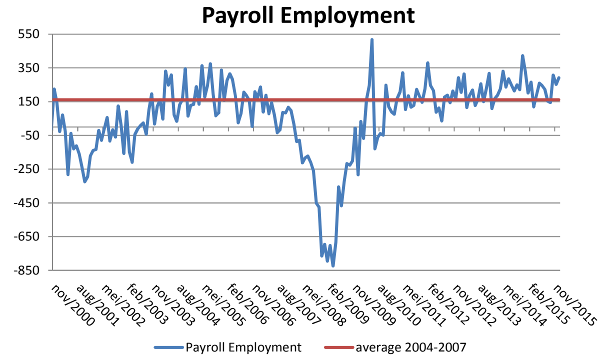
★ Fed target: Yellen said in the press conference after the March 19 FOMC decision that with 2% inflation and productivity growth they have, wage inflation of between 3% and 4% would be normal. Therefore we define our target at 3,5%

★ Due to the volatility in the payrolls data, we preferred to take a 6-month moving average for this indicator instead of a 3-month moving average

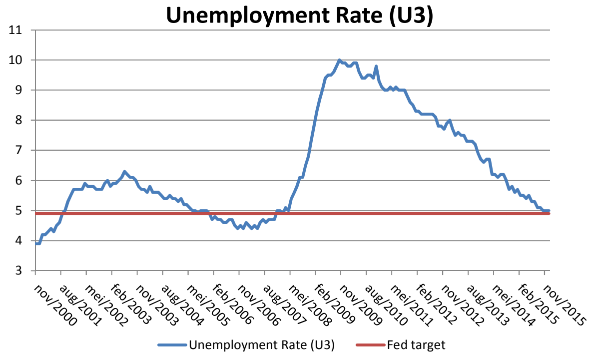
*Table 1: Overview Yellen Labour Market Dashboard*

*Table2: Definitions of the Yellen Labour Market Indicators*

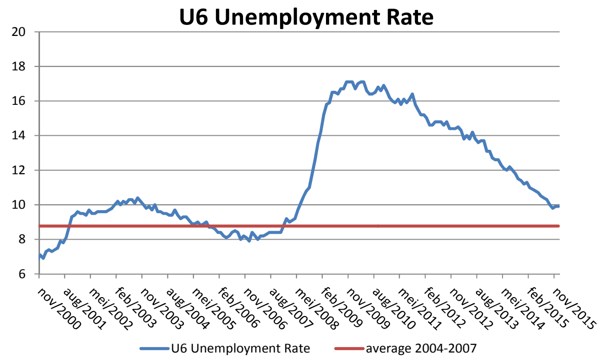
| Yellen Labour Market Indicators | Description |
|---|---|
| *Payroll Employment* | Net monthly change in number of employees on business payrolls |
| *Unemployment rate* | Number of unemployed persons as percentage of the labor force |
| *U6 Unemployment rate* | Unemployed & Marginally Attached & Employed Part Time For Economic Reasons As part of the Civilian Labour Force |
| *Long-term Unemployed share* | Share of Unemployed who have been out of work for 27 weeks or longer |
| *Participation rate* | Total labor force as a percent of the working age population |
| *Job Openings rate* | Tracks the number of job openings in an economy as a percentage of paid employees. Includes newly created or unoccupied positions where an employer is taking specific actions to fill these positions. |
| *Job Hires rate* | Workers hired as a percentage of paid employees |
| *Job Quits rate* | Tracks voluntary job separations initiated by the employee as a percentage of paid employees. |
| *Layoffs/Discharges rate* | Layoffs and discharges as a percentage of paid employees (involuntary job separations initiated by the employer) |
| *Average Hourly Earnings* | Total hourly renumeration (in cash or kind) paid to employees in return for work done |



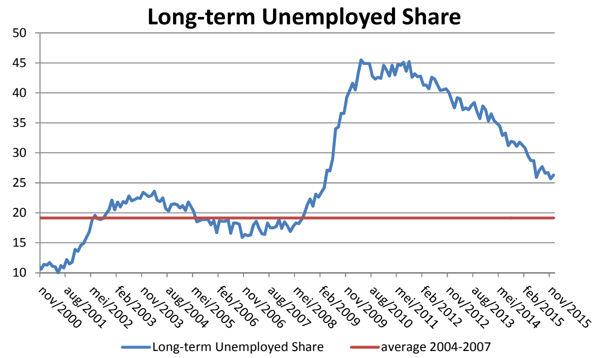

*The December payrolls report was again very strong with hiring accelerating to 292 000. During the fourth quarter, employment rose by an average of 283 000 a month, signalling a very strong end of the year for the US labour market.* ***Payroll employment remains well above our target of 161 000 (2003-2007 average).***



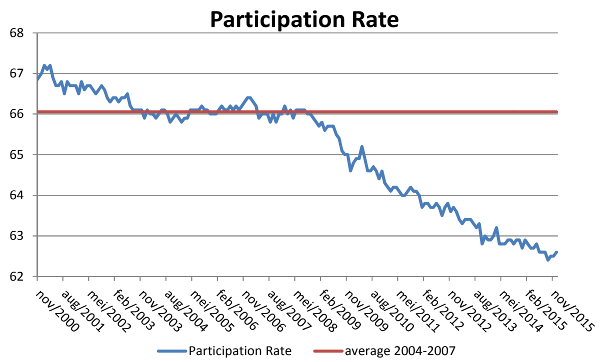

*In December,* ***the unemployment rate remained stable at 5%****, for a second straight month. In the meantime however, the Fed lowered its estimate of full employment to 4.9%, which means that* ***the unemployment rate is just a touch above the Fed's target.***



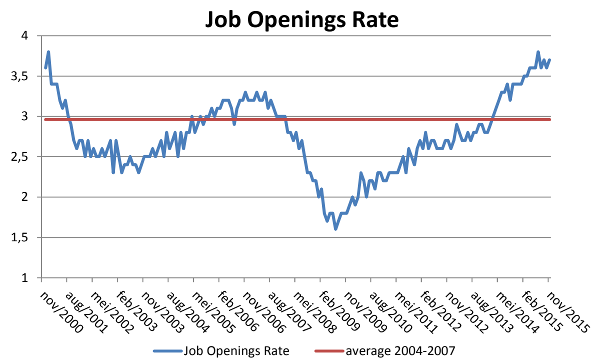

Following a limited uptick in November, from 9.8% to 9.9%, the ***U6 unemployment rate stayed unchanged in December.*** *We believe however that the U6 unemployment rate will soon resume its downward trend and* ***might reach our target of 8.8% in the course of this year.*** *The U6 unemployment rate includes the marginally attached and part-time workers for economic reasons.*



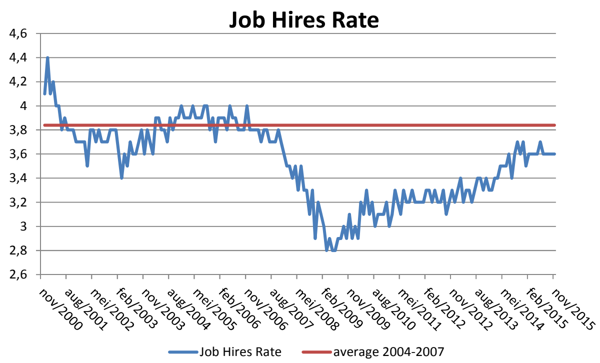

***The long-term unemployed share*** *(share of unemployed who have been out of work for 27 weeks or longer)* ***picked up somewhat in December,*** *from 25.7% from 26.3% in November. The downtrend remains however in place, although long-term unemployment remains relatively high with the rate still well above* ***our target*** *of 19.1% (2003-2007 average).*

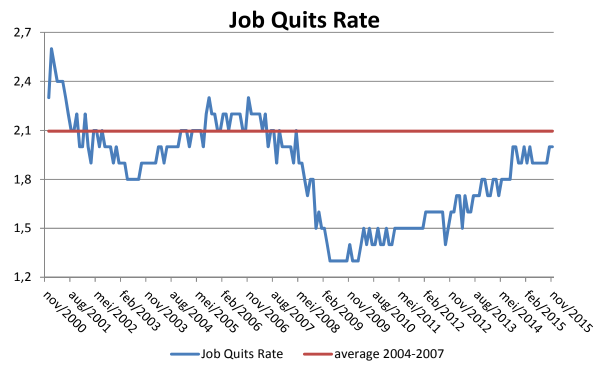



***The US participation rate picked up further in December,*** *from 62.5% to 62.6%. Although it's too early to conclude that the trend has turned, the pick-up could indicate that some people are returning to the labour force. Structural factors (demographics) remain a headwind though.*



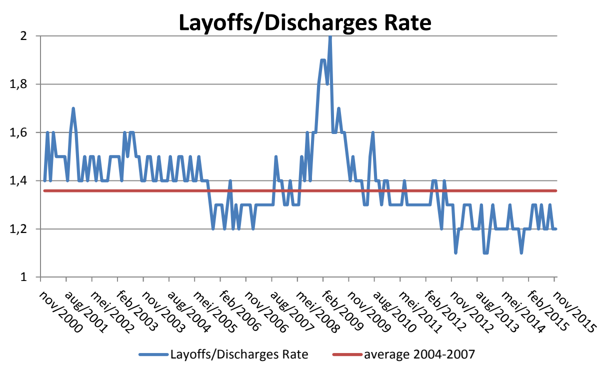

***The job openings rate picked up again in November,*** *rising from 3.6% to 3.7%. The job openings rate remains well above our target of 3.0% (2003-2007 average) and seems to stabilize at current, very high, levels.*

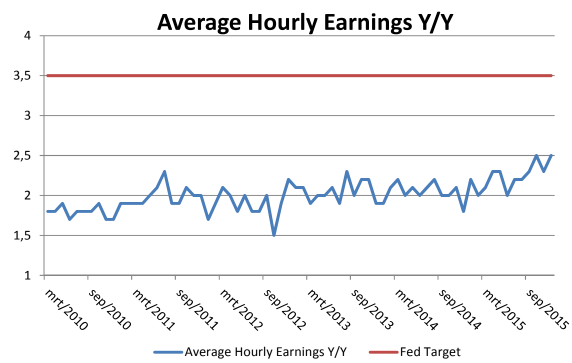



*__Although the job openings rate remains very high, the hires rate fails to pick up further__. In November, the hires rate stayed unchanged at 3.6%, for a fourth straight month. The hires rate is close to our target of 3.8%, but for now its uptrend seems to have stalled. __The gap between job openings and hires might indicate that firms have difficulties to find skilled workers.__*

*Job quits tend to give an indication on the health of the labour market as workers will only quit their jobs if they have a decent chance to find another. __The job quits rate stayed unchanged at 2.0% in November,__ just below our 2.1% target (average 2003-2007), indicating that workers are rather confident in leaving their jobs while firms are also becoming active in recruiting workers away from their competitors.*




*Layoffs/Discharges picked up sharply at the start of the recession, but dropped again soon afterwards. __The layoffs rate dropped to 1.1% last year and hovers since in a tight 1.1% to 1.3% range. In November, the rate stayed unchanged at 1.2%__ and remains below our target of 1.4% (average in the 2003-2007 period).*

*__Average hourly earnings (AHE) picked up again in December, to its cyclical high of 2.5% Y/Y.__ Although wage growth is slowly accelerating, __the pace remains well below our target of 3.5% Y/Y__, suggesting that there remains significant slack in the US labour market. As the labour market recovery is gathering strength, we hope to see wages pick up further in the coming months.*

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