



Flash

Monday, 25 April 2016

Update US Labour Market Dashboard

Despite mixed labour market data, the underlying trend remains very strong

US economic growth has slowed sharply in the second half of last year and most likely further at the start of this year. Despite only meagre growth, **the labour market remained in excellent shape**. Monthly payrolls growth remains well above 200 000 and the unemployment rate is hovering around the Fed's full employment rate target.

Looking further into detail, **a new and important development has started since the end of last year. The downtrend in the participation rate seems to have turned**. In September last year, the participation rate dipped at 62.4%, its lowest level since the '70s, but after a four-month uptrend it is now at 63%. The participation rate is unlikely to return to our target of 66% (average seen in 2003-2007) due to demographical factors, but the recent uptick is an encouraging sign and **indicates that Americans are returning to the labour force**. As the civilian labour force has increased sharply recently, the downtrend in the unemployment rate has slowed. In March, the unemployment rate even picked up slightly, from 4.9% to 5.0%, jumping again above the Fed's full employment rate target. The broader U6 unemployment rate, which is still somewhat above our target, hovered broadly sideways in the last few months, but we expect it to resume its downward trend soon. Somewhat disappointing however, **the uptrend in wage growth seems to have stalled**, remaining well below our target of 3.5% Y/Y. Turning to the JOLTS report, the latest developments are very positive too. The hires rate has finally reached our target, while the openings, quits and layoffs rates all remained in line with our target.

A quick look at the table below indicates that most recent developments were mixed. Four of our ten indicators improved and as many weakened, while two stabilized. **Five of our ten indicators have met our self-defined target**, as many as in our previous report two months ago. While the unemployment rate fell below, the hires rate has now met the target. We believe that the unemployment rate will soon resume its downward trend and reach again our target. The four other indicators (U6 unemployment rate, LT unemployed share, participation rate and average hourly earnings) are still significantly below their targets, **suggesting that there is still some slack remaining. At the current pace of job growth however, slack is rapidly being diminished**.

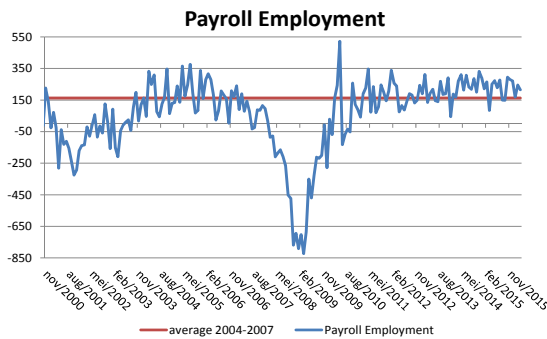
Joke Mertens, KBC Dealingroom

	Target	Worst	Last	Previous	Diff. With Target	Latest Development	3m Moving Average
Payroll Employment	162,4	-823,0	215,0	245,0	83 ↓	-30 ★	245,7
Unemployment Rate (U3)	★ 4,9	10,0	5,0	4,9	0,1 ↓	0,1	5,0
U6 Unemployment Rate	8,8	17,1	9,8	9,7	1,0 ↓	0,1	9,8
Long-term Unemployed Share	19,1	45,5	27,6	27,7	8,5 ↑	-0,1	27,4
Participation Rate	66,1	62,4	63,0	62,9	-3,1 ↑	0,1	62,9
Job Openings Rate	3,0	1,7	3,7	3,8	0,7 ↓	-0,1	3,7
Job Hires Rate	3,8	2,8	3,8	3,6	0,0 ↑	0,2	3,7
Job Quits Rate	2,1	1,3	2,1	2,0	0,0 ↑	0,1	2,1
Layoffs/Discharges Rate	1,4	1,9	1,2	1,2	-0,2 →	0	1,2
Average Hourly Earnings Y/Y	★ 3,5	1,6	2,3	2,3	-1,2 →	0	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						

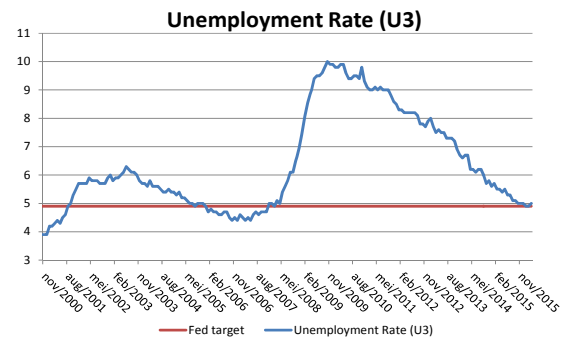
Table 1: Overview Yellen Labour Market Dashboard

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 remuneration (in cash or kind) paid to employees in return for work done



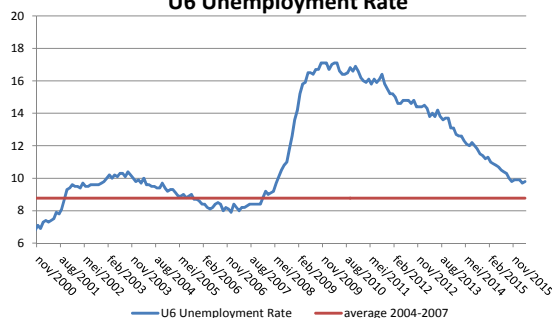
Although growth has slowed sharply **hiring is holding up surprisingly well at the start of the year**. In February, payrolls rose by 245 000 before slowing to 215 000 in March, well above our target of 161 000 (2003-2007 average). The 3-month moving average (245 000) remains very strong too.



In March, **the unemployment rate picked up unexpectedly, from 4.9% to 5%, slightly above the Fed's target of 4.9%.**

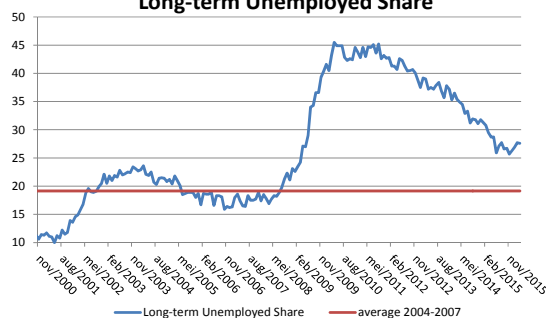
The downtrend in the unemployment rate has slowed recently as people are returning to the labour force, which is also visible in the uptick in the participation rate.

U6 Unemployment Rate



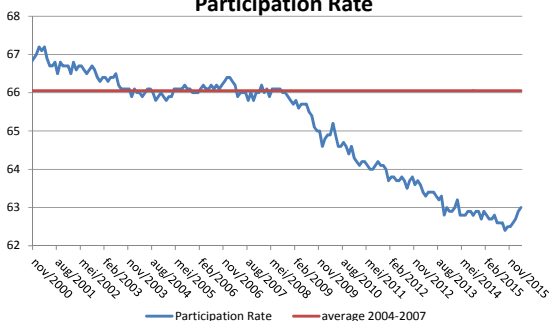
In line with the headline rate, **also the downturn in the U6 unemployment rate slowed recently as more people are returning to the labour force**. After having dropped in February, the U6 unemployment rate picked up slightly in March, rising from 9.7% to 9.8%, 1% above our target of 8.8%. The U6 unemployment rate includes the marginally attached and part-time workers for economic reasons.

Long-term Unemployed Share



After having increased for three consecutive months, **the long-term unemployed share** (share of unemployed who have been out of work for 27 weeks or longer) **dropped slightly in February from 27.7% to 27.6%**. In the coming months, we hope to see a further decline as long-term unemployment remains relatively high with **the rate still well above our target** of 19.1% (2003-2007 average).

Participation Rate



The US participation rate rose for a fourth straight month in March from 62.9% to 63.0%, its highest level since early 2014, confirming that the downtrend came to an end. A return to the levels seen in 2003-2007 is however unlikely as structural factors (demographics) remain a headwind.

Job Openings Rate



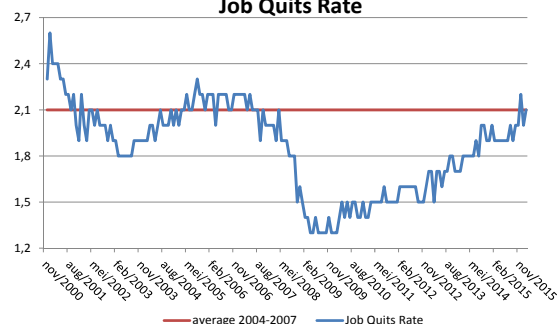
The job openings rate slowed slightly in February, from 3.8% to 3.7%, **but remains at historically very high levels**. The job openings rate remains well above our target of 3.0% (2003-2007 average) and seems to top out at current very high, levels.

Job Hires Rate



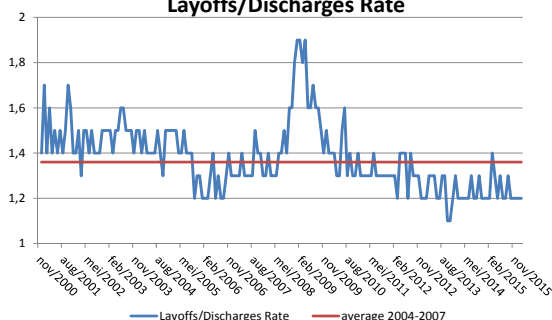
After hovering just below for more than one year, **the hires rate has finally reached its target in February**, rising from 3.7% to 3.8%. There remains however a significant gap between job openings and hires, which indicates that firms have difficulties to find skilled workers.

Job Quits Rate



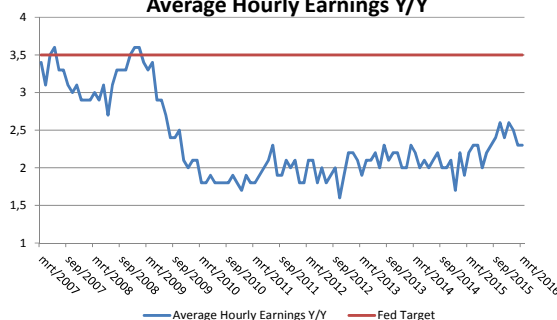
Job quits tend to give an indication on the health of the labour market as workers will only quit their jobs if they have a decent chance to find another. The job quits rate rose above our target in December, but fell back below in January. **In February, the job quits rate picked up again to 2.1%, in line with our target (average 2003-2007)**, indicating that workers are confident in leaving their jobs while firms are also becoming active in recruiting workers away from their competitors.

Layoffs/Discharges Rate



Layoffs/Discharges picked up sharply at the start of the recession, but dropped again soon afterwards. **Currently, the layoffs rate is hovering in a tight range around 1.2%-1.3%, below our target of 1.4% (average in the 2003-2007 period).**

Average Hourly Earnings Y/Y



Growth in average hourly earnings (AHE) slowed further in February, from 2.5% Y/Y to 2.3% Y/Y, followed by a stabilization in March. After having picked up at the end of last year, the uptrend seems to have stalled early this year. Wage growth continues to lag, remains well below our target of 3.5% Y/Y.

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