



Flash

Tuesday, 16 February 2016

Update US Labour Market Dashboard

The unemployment rate has reached the Fed's target, but some slack remains

After a very strong fourth quarter, employment growth in the US slowed significantly at the start of the new year, due to fewer jobs created in the services sector. The unemployment rate, on the contrary, dropped unexpectedly from 5.0% to 4.9% following two consecutive months of stabilization and **is now in line with the Fed's full employment target**. While we expect the unemployment rate to extend its downtrend, the pace has slowed recently as more people are returning to the labour market. As a result, the participation rate picked up in December and January, showing signs of bottoming out. With more Americans returning to the labour force, also the broader U6 unemployment rate failed to drop further and remains significantly above our target, which suggests that there is still slack in the labour market. Also the long-term unemployed share edged higher as it's most challenging to find a job for those who are the longest out of work. Despite mixed payroll data, **average hourly earnings surprised again on the upside**. The annual rate of growth slowed but less than forecast as AHE increased by 0.5% compared with the month before. Wage growth remains well below the Fed's target (3.5% Y/Y), but is on a sustained upward trend. **With the current low levels of inflation, real wage growth is however not too bad**.

The JOLTS report for December confirmed the strong momentum in the US labour market at the end of last year. The job openings rate jumped again to its record high in December, but the hires rate continued to lag, hovering just below our target. Further improvements were registered in the quits rate, which has now also met our target and the layoffs/discharges rate fell again to its record low.

A look at the table below confirms the **US labour market recovery is strengthening further**. Five of our ten pointers improved, two stabilized and three weakened. Even more encouraging, **five indicators have now met our self-defined target**, compared with three in the previous months. Payroll growth fell back below our target, but the 3-month moving average, which is our benchmark, remains well above. The hires rate is very close to our target, but in the remaining four (U6 unemployment rate, long-term unemployed share, AHE and participation rate) there is still some way to go. Three of them are definitely moving in the right direction and the participation rate seems to have ended its downtrend too, although a return to our target is unlikely due to demographics. **The unemployment rate has reached the Fed's full employment target, but details point to still substantial slack. At the current pace of job growth however, slack is rapidly shrinking**.

Joke Mertens, KBC Dealingroom

	Target	Worst	Last	Previous	Diff. With Target	Latest Development	3m Moving Average
Payroll Employment	162,4	-823,0	151,0	262,0	52 ↓	-111	214,5
Unemployment Rate (U3)	★ 4,9	10,0	4,9	5,0	0,0 ↑	-0,1	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	26,9	26,3	7,8 ↓	0,6	26,3
Participation Rate	66,1	62,4	62,7	62,6	-3,4 ↑	0,1	62,6
Job Openings Rate	3,0	1,6	3,8	3,6	0,8 ↑	0,2	3,7
Job Hires Rate	3,8	2,8	3,7	3,7	-0,1 →	0	3,7
Job Quits Rate	2,1	1,3	2,1	2,0	0,0 ↑	0,1	2,0
Layoffs/Discharges Rate	1,4	2,0	1,1	1,2	-0,3 ↑	-0,1	1,2
Average Hourly Earnings Y/Y	★ 3,5	1,6	2,5	2,7	-1,0 ↓	-0,2	2,5

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%

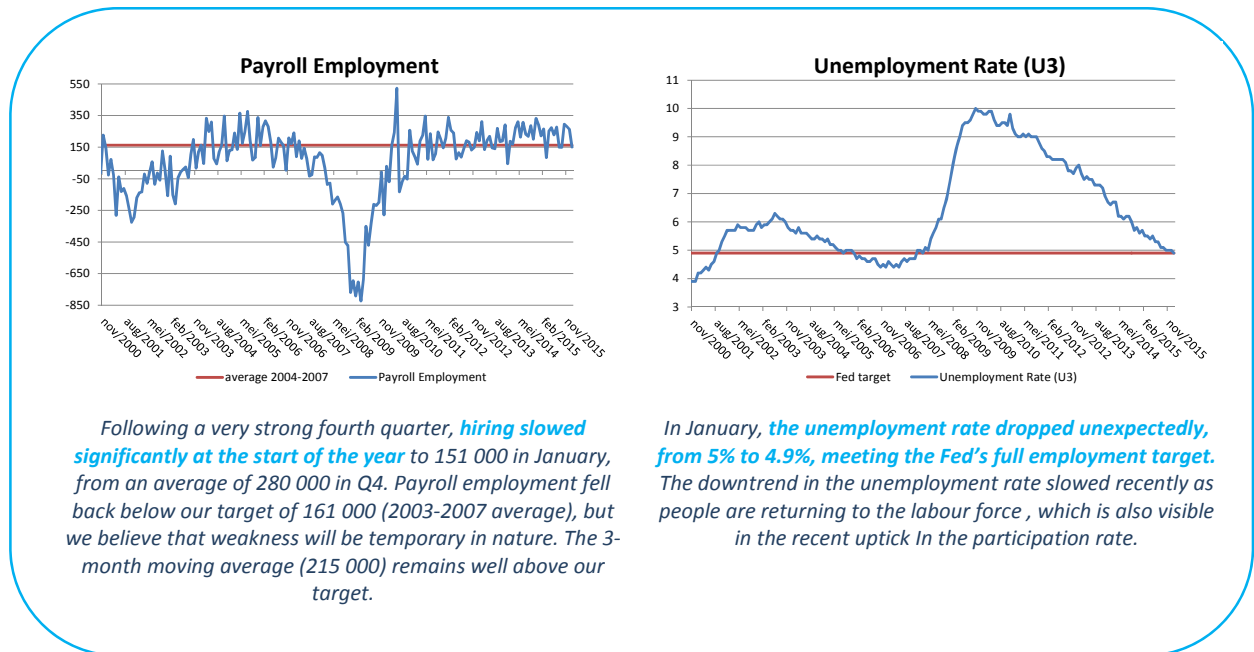


Due to the volatility in the payrolls data, we preferred to take a 6-month moving average for this indicator instead of a 3-month moving average

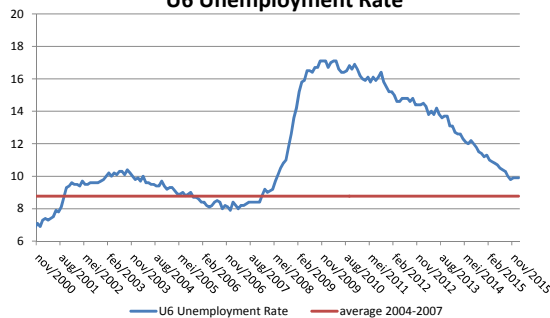
Table 1: Overview Yellen Labour Market Dashboard

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

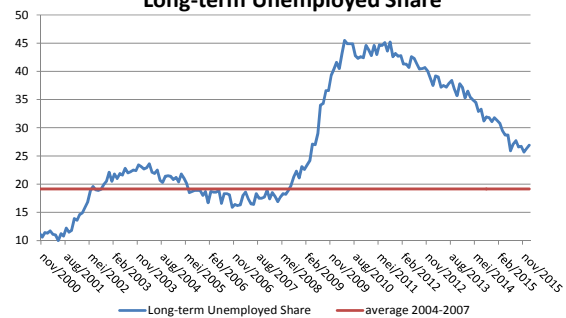


U6 Unemployment Rate



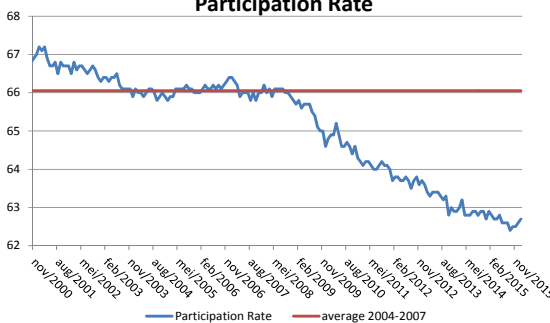
For a second consecutive month, the **U6 unemployment rate stayed unchanged at 9.9% in January**. The downturn in the U6 unemployment rate slowed too **as more people are returning to the labour force**, we believe however that the U6 unemployment rate will soon resume its downward trend. The U6 unemployment rate includes the marginally attached and part-time workers for economic reasons.

Long-term Unemployed Share



The **long-term unemployed share** (share of unemployed who have been out of work for 27 weeks or longer) **picked up further in January**, from 26.3% to 26.9%. 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).

Participation Rate



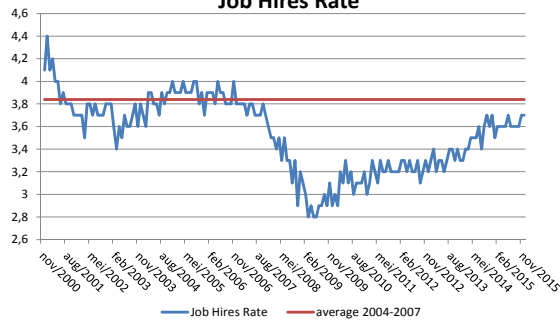
The **US participation rate picked up further in January**, from 62.6% to 62.7%. It is however too early to conclude that the trend has turned, as structural factors (demographics) remain a headwind.

Job Openings Rate



The **job openings rate picked up again in December**, rising from 3.6% to 3.8%, its record high. 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



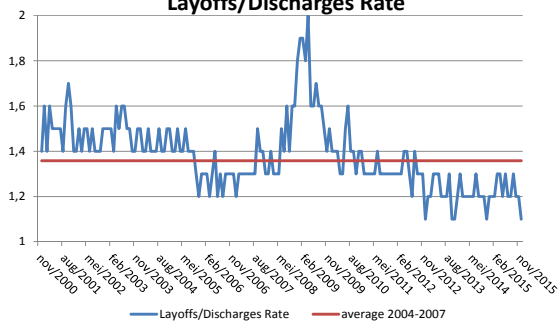
Although the job openings rate jumped again to its record high, the hires rate fails to pick up further. In December, the hires rate stayed unchanged at 3.7%, only a touch below our target of 3.8%. The gap between job openings and hires might indicate that firms have difficulties to find skilled workers.

Job Quits Rate



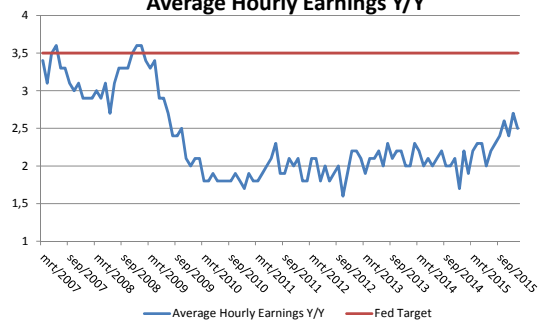
Job quits tend to give an indication on the health of the labour market as workers will only quit their jobs if they have a decent chance to find another. The job quits rate picked up to 2.1%, its highest level since 2008 and finally meeting our target (average 2003-2007), indicating that workers are 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. The layoffs rate dropped to 1.1% last year and hovers since in a tight 1.1% to 1.3% range. In December, the rate fell again to its low of 1.1% and remains well below our target of 1.4% (average in the 2003-2007 period).

Average Hourly Earnings Y/Y



Growth in average hourly earnings (AHE) slowed in January, from an upwardly revised 2.7% Y/Y to 2.5% Y/Y. Monthly data were however strong, increasing by 0.5% M/M. Wage growth is slowly picking up, but the pace remains well below our target of 3.5% Y/Y, suggesting that there remains significant slack in the US labour market.

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