

Flash Comment US

Solid jobs growth continues and manufacturing cycle has turned

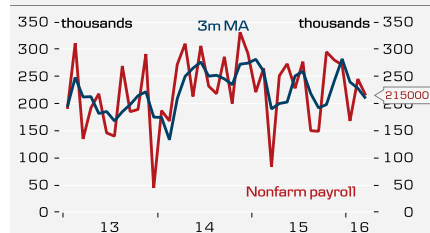
Today, we have had several important data releases in the US as we got both the jobs report and the ISM manufacturing index for March. **Overall, the data show that the labour market continues to do well and that the manufacturing cycle seems to have turned, the sector having struggled since late summer.** The fear of a US recession seems to have faded, at least for now, and the likelihood of a June hike has increased as the strong data are consistent with the Fed's base scenario for the US economy. However, one has to remember that Fed chair Yellen seems to put more weight on the downside than the upside risks to the economy, and thus wants to see the economy continuing to do well before tightening monetary policy further.

The jobs report for March was pretty strong and show that **the labour market performed very well in Q1 16 despite the massive financial turmoil at the beginning of the year. In other words, the US economy is still in fine shape with solid underlying growth.** Nonfarm payrolls increased 215,000, more or less in line with both our expectation and consensus (220,000 and 205,000, respectively). The jobs growth was driven by mainly services +199,000, construction +37,000 and government +20,000. Manufacturing employment dropped by 29,000 and has fallen by 49,000 in February and March combined. This is the largest two-month decline since the financial crisis. The labour force continues to increase and the participation rate increased to 63.0% from 62.9%. Thus the increase in the unemployment rate to 5.0% from 4.9% is driven by the fact that the labour force is growing faster than employment. **The increasing labour force means that employment has to rise relatively more to tighten the labour market.**

Average hourly earnings rose +0.3% m/m in March after they fell 0.1% m/m in February. However, the fall in February came after a pretty large increase of 0.5% m/m in January. **Overall, average hourly earnings in March grew a little over the trend growth of 0.2% m/m which has prevailed since the beginning of 2015.** Given that Yellen is uncertain whether the recent pickup in core inflation will prove 'durable', the Fed monitors wage inflation closely as higher wage inflation is an important ingredient for higher core inflation. Many FOMC members see the world through the so-called Phillips curve (which describes the relationship between unemployment and wage growth).

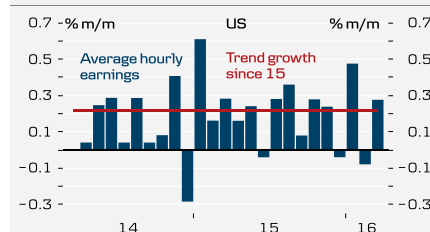
As suggested by all regional manufacturing indices, **the ISM manufacturing survey for March was strong, suggesting that the US manufacturing cycle has turned.** ISM manufacturing rose more than expected to 51.8 in March from 49.5 in February. It is the first time since August 2015 that the index is now in the expansionary territory above 50. **The details were even better than the headline. The new orders index spiked to 58.3 from 51.5, the highest since November 2014. New export orders increased to 52.0 from 46.5 supported by the stabilisation in China and the weaker USD.** Production increased to 55.3 from 52.8. The order-inventory balance suggests that ISM manufacturing can increase further in the coming months. The employment index is still the weakest link as for the fourth consecutive month it was below 50.

Strong jobs growth in Q1 despite massive financial turmoil



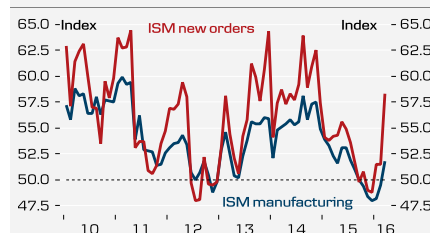
Source: BLS

Average hourly earnings are growing 0.2% m/m per month on average



Source: BLS, Danske Bank Markets

ISM manufacturing rose in March, especially driven by a sharp rise in the new orders index

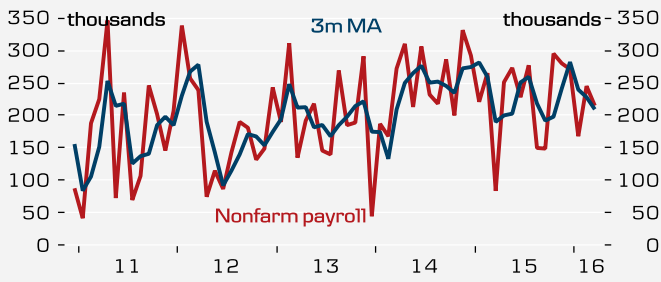


Source: ISM

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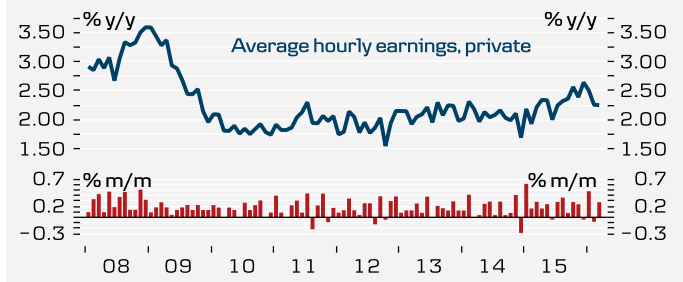
Strong jobs report in March

Strong jobs growth in Q1 despite massive financial turmoil



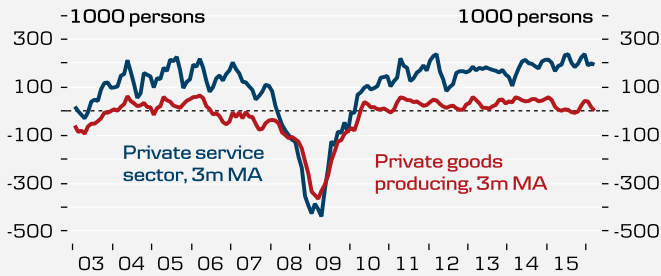
Source: BLS, Danske Bank Markets

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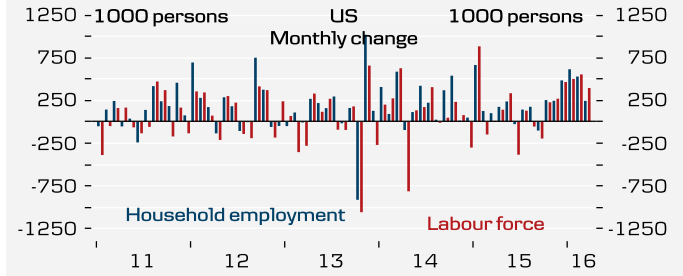
Source: BLS, Danske Bank Markets

Employment driven by services



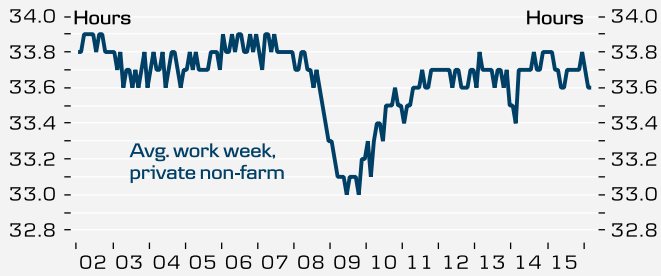
Source: BLS, Danske Bank Markets

Labour force growth is outpacing employment growth



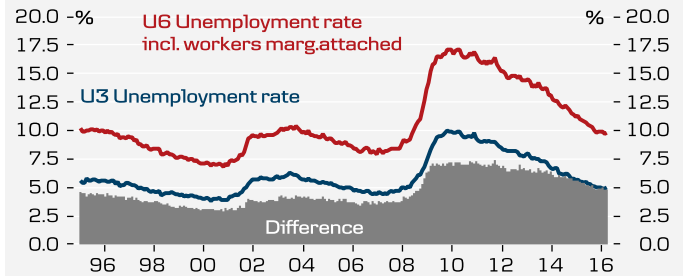
Source: BLS, Danske Bank Markets

Average weekly hours unchanged



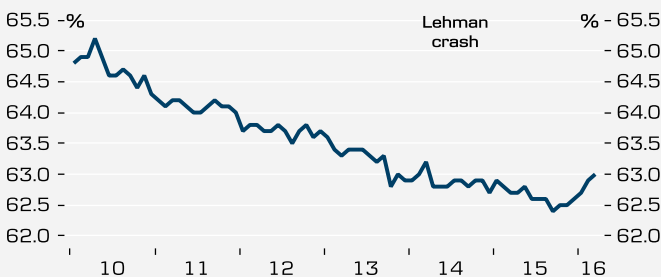
Source: BLS, Danske Bank Markets

Unemployment rate rose slightly to 5.0% from 4.9%



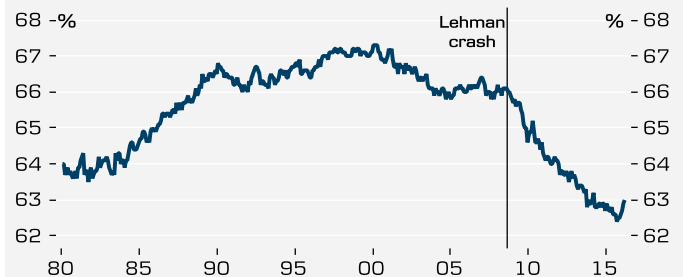
Source: BLS, Danske Bank Markets

Participation rate has begun to pickup ...



Source: Macrobond Financial, BLS

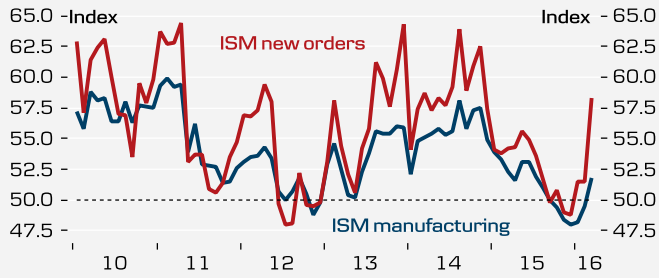
... but still low from a historical perspective



Source: Macrobond Financial, BLS

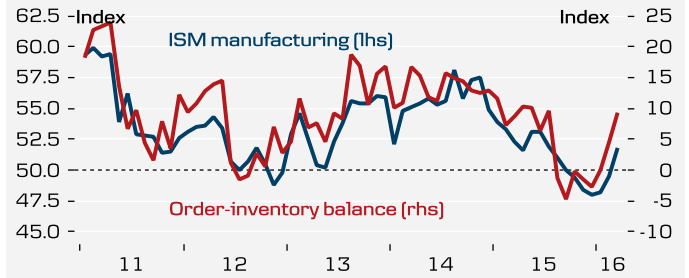
Strong ISM survey for March

Higher ISM manufacturing driven by sharp increase in new orders



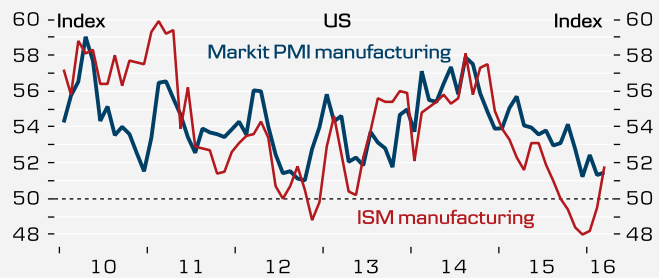
Source: ISM, Danske Bank Markets

Order-inventory balance suggests that ISM manufacturing can move higher in the coming months



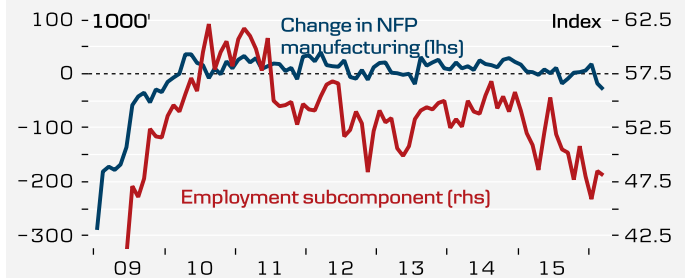
Source: ISM, Danske Bank Markets

Markit PMI never went below 50 but has also stabilised



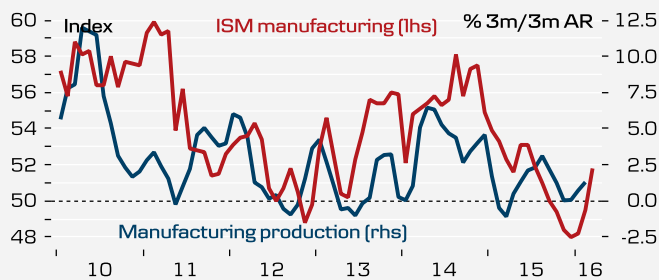
Source: ISM, Danske Bank Markets

Employment index at 2009 level



Source: ISM, Danske Bank Markets

ISM manufacturing suggests that manufacturing cycle has turned



Source: ISM, Danske Bank Markets

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