

Flash Comment

US: employment report disappoints

- Job losses rose again in June following the surprisingly rapid deceleration in May. Seen over a three month average, the pace of job losses nevertheless remains well below the peak in the first months of the year.
- For private payrolls, weakness was most noticeable in the service producing sector, especially in business services. The decline in goods producing employment was virtually unchanged from May, and decelerated in the manufacturing sector.
- Growth in hourly earnings is decelerating, and combined with the retrenchment in aggregate hours worked, wage and salary income will slip further.
- We still believe that we are past the worst declines in payrolls, and look for job growth to return to positive territory as we approach year-end.

Details

The US employment report for June showed a larger than expected decline in employment. Although some of this was due to the unwinding of temporary census-related hires by the federal government, subtracting these 49K still leaves the overall report a disappointment. Net revisions to April and May amount to a modest +8K. The unemployment rate rose less than expected but this was mostly due to a setback in the labour force.

Total private payrolls declined by 415K, more than the 312K in May, but still below the pace of job losses seen in the first months of the year. Weakness is most noticeable in the service providing sector, with business services showing a decline in employment of 118K compared to 48K in May. Job losses in the goods producing sector was virtually unchanged compared to May and actually decelerated in the manufacturing sector

Aggregate working hours declined even faster than payrolls as businesses are scaling down on the average workweeks. Over the past three months aggregate working hours are down by 8.1% AR. Adjusting for the trend in labour productivity this indicates a contraction in non-farm GDP of 5.5% AR in the second quarter of 2009. This runs counter to other indicators suggesting some upside risks to our -2 q/q AR call for real GDP -- there could thus be potential for a large gain in productivity.

Unemployment is heading upwards at a rapid pace and the slack in the labour market is building up fast. As a consequence, the growth in hourly earnings is now decelerating fast. Combined with a severe retrenchment in aggregate hours worked, our payrolls income proxy indicates that wage and salary income growth is declining at a pace of more than 5% q/q AR. The income boost from the fiscal stimulus package should work to fill some of the gap, but we need to see further improvement in the employment trend within the coming months to keep private consumption in positive territory when the boost from the fiscal stimulus fades.

Assessment & Outlook

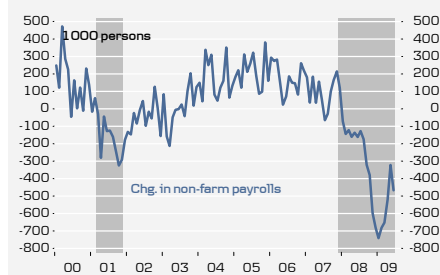
The private sector is shedding jobs rapidly, but we should be past the bottom in payrolls growth. Some signs of stabilisation in economic growth have already emerged and we expect to see further improvement especially in the manufacturing sector in the coming months. Our payrolls growth model based on our forecast for ISM, GDP and trend productivity thus flags for a return to positive job growth by late this year.

(More charts on page 2)

Employment report (June), 000

	Act	Con	DB	Last
Payrolls	-467	-365	-270	-322
Unemp.	5.5	5.6	5.6	5.4

A set-back in employment growth



Source: Reuters Ecowin

Unemployment rate rising at a slower pace

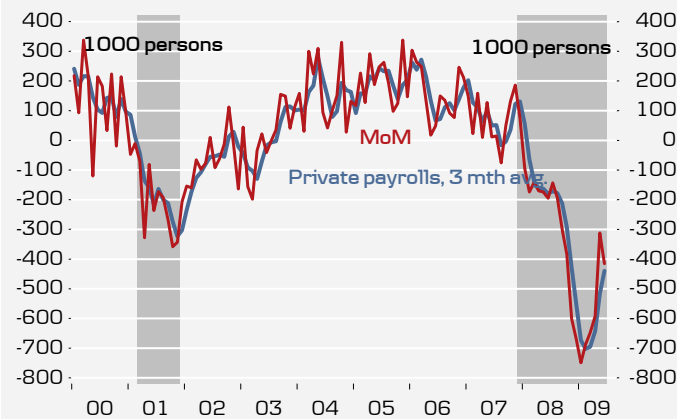


Source: Reuters Ecowin

Senior Analyst

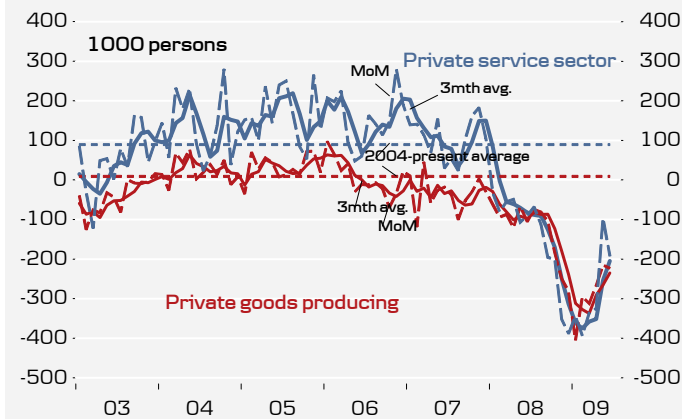
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A temporary set-back in private payrolls...



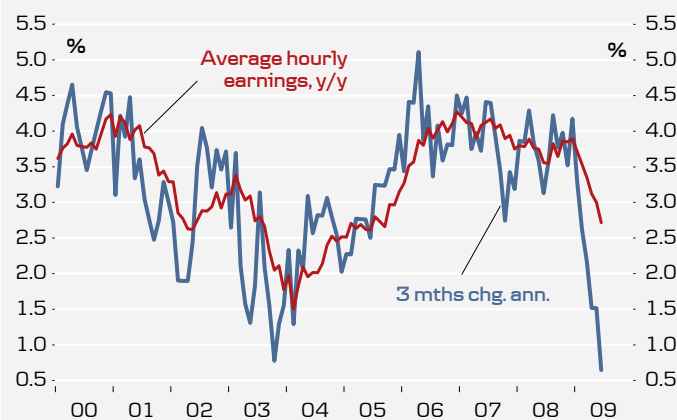
Source: Reuters Ecowin and Danske Markets

...driven by weakness in the service sector



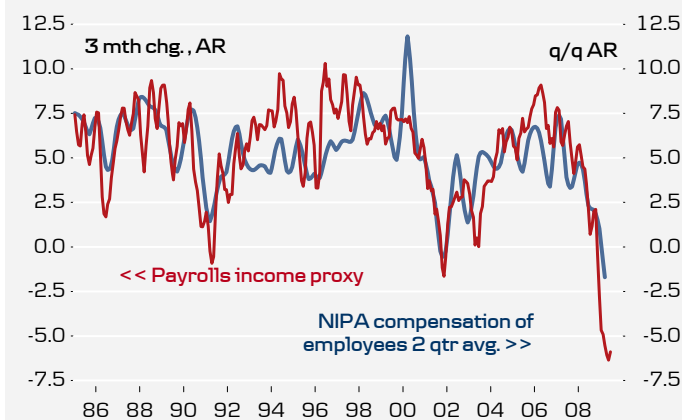
Source: Reuters Ecowin and Danske Markets

Hourly wage growth is trending lower...



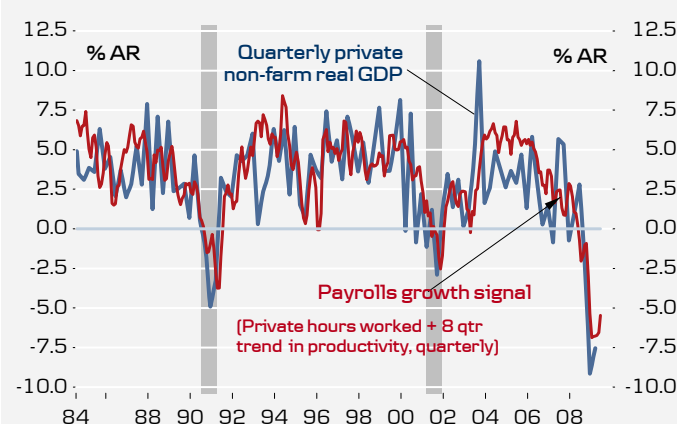
Source: Reuters Ecowin and Danske Markets

and combined with a sharp contraction in working hours is hampering income growth...



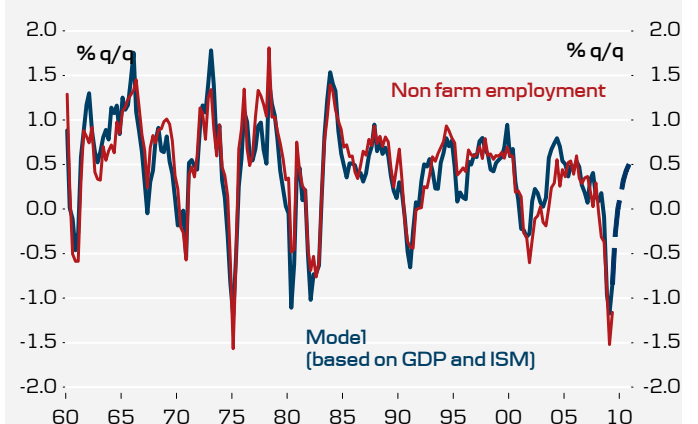
Source: Reuters Ecowin and Danske Markets

...signalling a sharp contraction in GDP in Q2



Source: Reuters Ecowin and Danske Markets

The good news: we are heading for positive job growth by year-end



Source: Reuters Ecowin and Danske Markets

Disclosure

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First date of publication

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