

Global employment

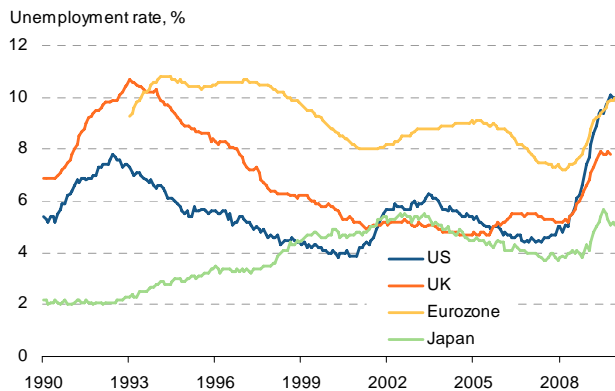
Worldwide job losses at 17-month low in January, boosted by manufacturing recruitment

Global labour markets are showing further signs of stabilisation, according to both official data and PMI surveys.

Upside unemployment surprises

News on official unemployment was generally encouraging around the turn of the year. A fall in the rate of joblessness in the US from 10.0% to 9.7% in January surprised analysts. December data for Japan pointed to the rate dipping from 5.2% to 5.1%, while in the UK unemployment was unchanged at 7.8%. The big disappointment was the Eurozone, where unemployment rose to 10.0% at the end of 2009. Spain reported an increase to 19.5%, and the German and French jobless rates were 7.5% and 10.0% respectively.

'Big-four' unemployment rates



Source: Ecwin.

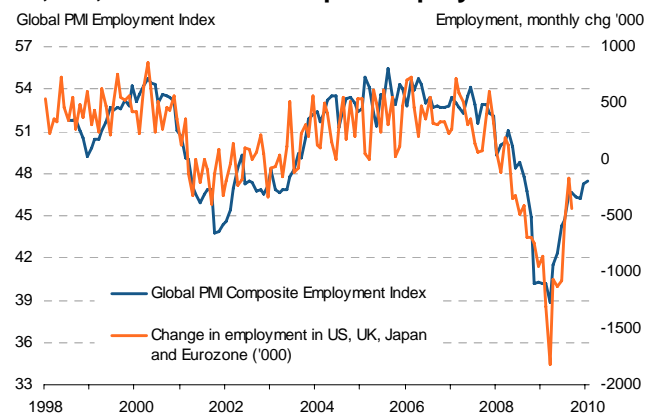
Regardless of any recent improvements, unemployment rates clearly remain high by historical standards in the 'big-four' developed markets of the US, the UK, the Eurozone and Japan. The resulting weakness of consumer spending is a key factor expected to subdue economic growth in the next two years. There is also an expectation that rates may yet rise again before they assume more definite longer-term downward trends.

However, PMI data provide hope that employment – in the private sector at least (which reflects PMI coverage) is set to rise in coming months, bringing unemployment rates down.

PMI data show further slowing in job cutting

The Global PMI Employment Index, compiled for JPMorgan by Markit, rose to its highest level since August 2008. Although still signalling a net loss of jobs during the month, the rate of decline has eased sharply since peaking last March. Particularly encouraging was an increase in manufacturing employment for the first time in almost two years.

US, UK, Eurozone and Japan employment



Sources: Markit, ISM, Ecwin.

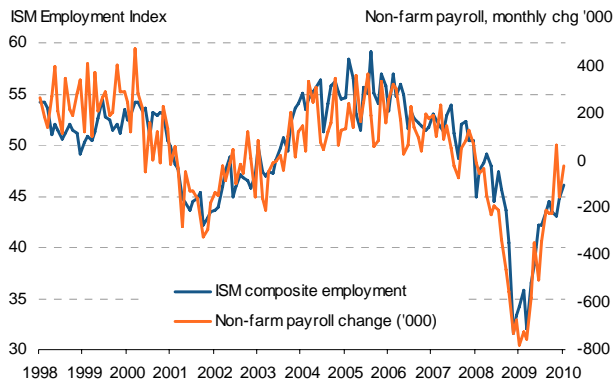
Comparisons of the PMI against actual employment data suggest that the total number of jobs lost in January in the US, the UK, Japan and the Eurozone slowed to less than 200k. This compares with a peak of 1.8m in March of last year (the same month the Global PMI's Employment Index hit a record low).

Official data on employment tend to be highly volatile, making national comparisons with PMI indices difficult, meaning the PMI data provide useful advance insights into the underlying trends and turning points in the official series.

In the **US**, where official data are the most timely (but also perhaps subject to the greatest revision), a 4k rise in non-farm payrolls in November has been revised up to 64k, and an initial estimate of 85k jobs lost in December has been revised to a loss of 150k. The first stab at an estimate for January is a loss of 20k jobs.

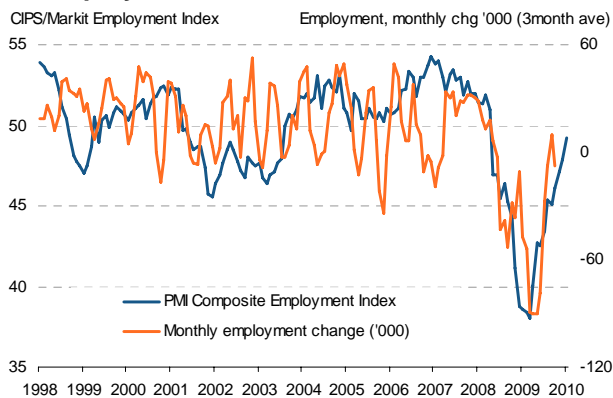
Clearly, it would be unwise to place too much emphasis on initial payroll estimates, but the trend in the data does chime with the (ISM) PMI data, which showed the rate of job losses slowing in January to the weakest since July 2008. At this level, the PMI data are roughly consistent with US payrolls falling by around 100k per month – a huge improvement on the c.700k jobs that were being lost on average each month in late-2008/early-2009.

US employment



If the main fault with US employment data is the extent to which the numbers are revised, the issue with the data in the **UK** is volatility, with violent changes in the numbers making the identification of turning points extremely difficult. The PMI data therefore help to ascertain the underlying trend in the data.

UK employment

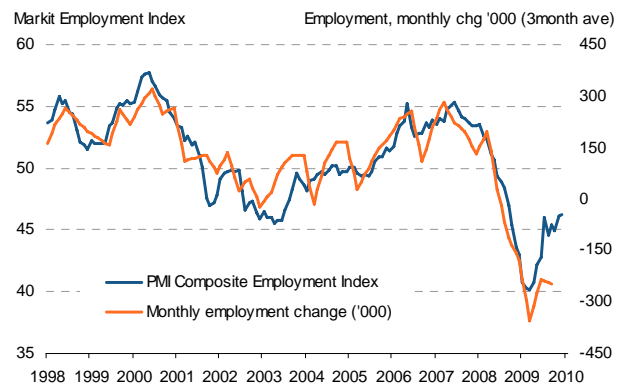


In the three months to October (the latest month for which official employment data are available), job losses ran at an average monthly rate of 8k,

representing a marked easing from a rate of 90K seen as recently as last Spring. This tallies with the UK PMI surveys, the composite Employment Index from which has risen sharply to signal a near-stabilisation of the labour market in January (the index hit a 21-month high). Manufacturers took on more staff for the first time since April 2008 while services companies cut headcounts at the slowest rate over this same period.

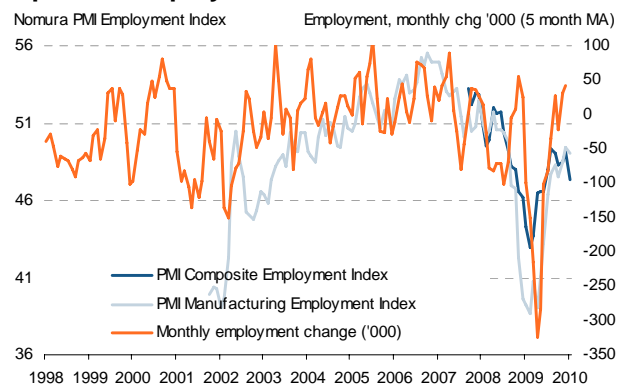
In the **Eurozone**, the composite PMI Employment Index edged up slightly in January to hit a 15-month high to indicate a further easing in the rate of decline of employment – the latest official data for the region showed an average monthly employment fall of 246k jobs in the three months to September. PMI data are consistent with this slowing to approximately 50k at the start of 2010.

Eurozone employment



Japanese official employment data are far more volatile than PMI data, making comparisons especially difficult. The composite Nomura PMI Employment Index took a downward lurch in January, hitting a seven-month low as headcounts were cut especially sharply in the service sector. This suggests that the official data will show a deterioration from the improving jobs trend reported by the government in December.

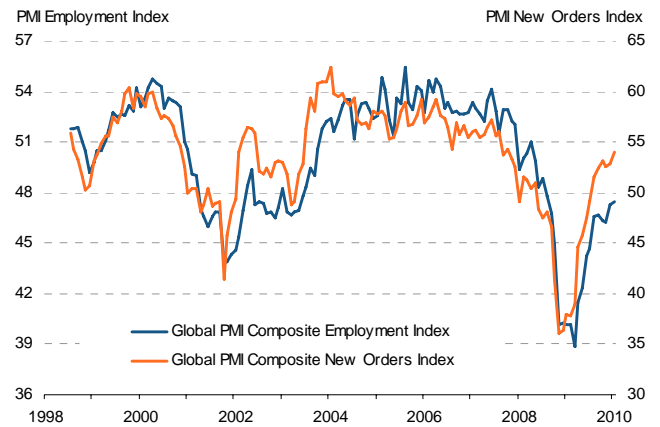
Japanese employment



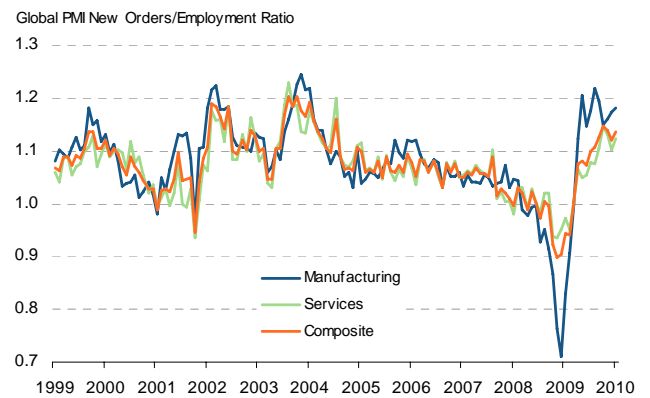
Uncertain labour market outlook

Comparisons of global PMI data on new orders and employment suggest that the labour market tends to lag changes in demand for goods and services. Furthermore, upturns in order books in 2001-2 and 2003-4 failed to generate corresponding improvements in employment. The divergence between the Global PMIs new orders and employment indices has risen sharply in recent months, but remains well below those seen in either of these previous upturns. This points to only modest improvements in employment worldwide in the coming months unless new order growth accelerates, especially in the service sector, where demand remains subdued.

Global PMI employment and order books



Global new orders:employment ratio



Sources: Markit, ISM, Ecwin.

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