

Global employment

PMI surveys suggest subdued job creation will weaken economic growth

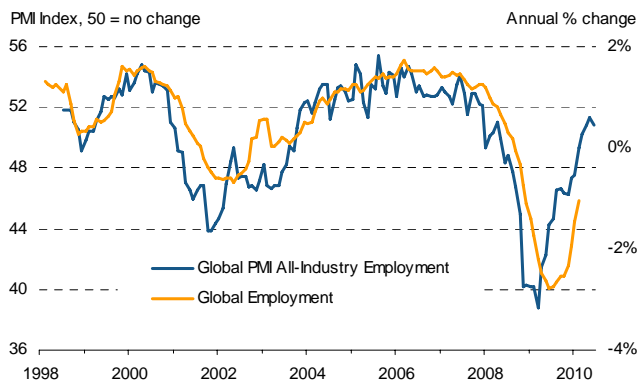
Unspectacular jobs growth continues

For economic recoveries to become truly sustainable and broad-based, a strengthening of the labour market is necessary. This is particularly important for the major developed countries, where consumer spending accounts for a large proportion of gross domestic product.

The national and global PMI survey employment indices have been reliable indicators of past trends in employment, and are available well ahead of official data in most countries. They are therefore well-placed to act as key guides to the sustainability of recoveries. Latest PMIs indicate that the global recovery continued to be characterised by disappointing jobs creation in June, suggesting that economies will remain fragile and dependent to a large extent upon global trade for growth.

The JPMorgan Global PMI survey, compiled by Markit, showed a net increase in jobs for the fourth successive month in June, but the rate of job creation remained only modest and even deteriorated compared to May. Having risen to 51.4 in May to signal the largest (though still unspectacular) increase in jobs since December 2007, the Global PMI Employment Index fell back to April's level of 50.8 in June. Any reading below 50 signals a decline in employment.

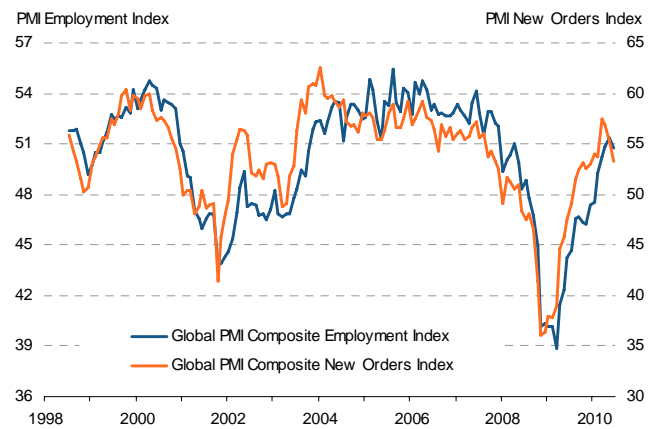
Global employment (PMI v. official)



Sources: Markit, ISM, JPMorgan.

The easing in job creation reflected a marked slowing in growth of new orders for goods and services, which rose at the weakest rate so far this year.

Global employment and order book inflows



Sources: Markit, ISM, JPMorgan.

Service sector doldrums

The key area of weakness remained the service sector. Although job creation in the global manufacturing sector waned slightly in June, it remained close to record highs for the survey (which stretches back to 1998). In contrast, barely any jobs were created across the global service sector in June as companies in many markets struggled with growing uncertainties about the future.

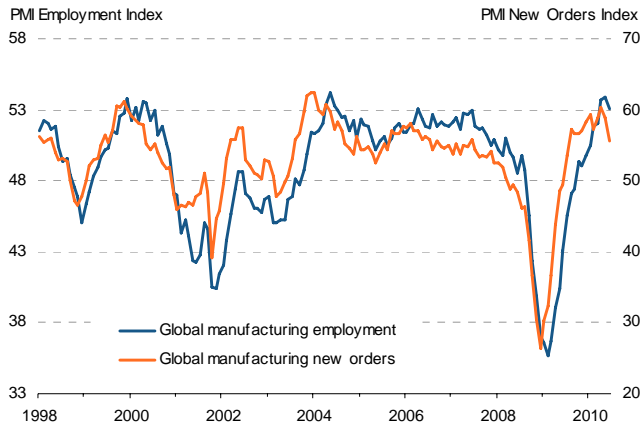
Global manufacturing v. services jobs



Sources: Markit, ISM, JPMorgan.

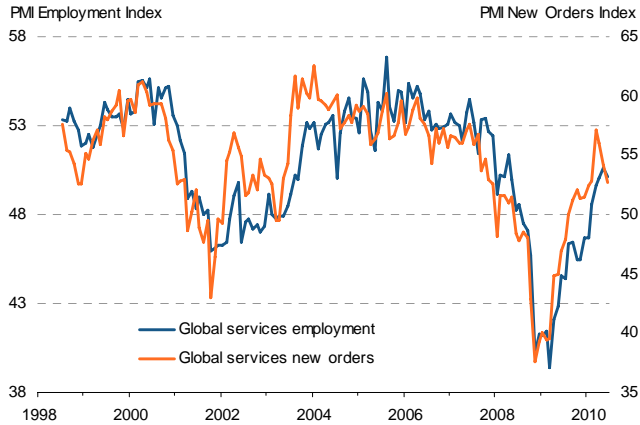
The disappointing rate of job creation in services compared to manufacturing reflects a similar divergence in output and new orders growth, with services continuing to under-perform. Whereas new orders growth has exceeded pre-crisis levels in manufacturing in recent months, it has remained weaker than prior to the downturn in services.

Global manufacturing employment & order books



Sources: Markit, ISM, JPMorgan.

Global service sector employment & order books

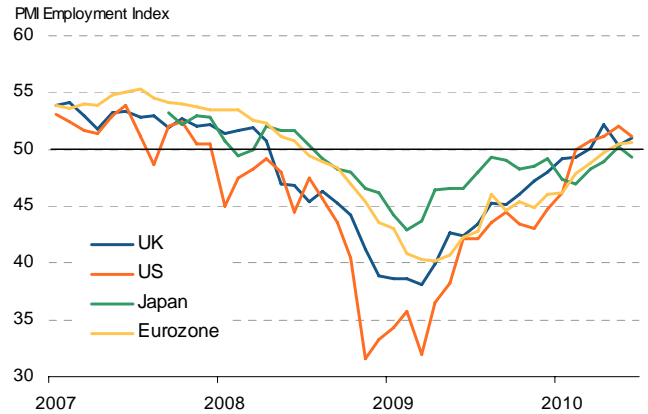


Sources: Markit, ISM, JPMorgan.

Job markets weak across all 'G4' developed countries

A reluctance to take on extra staff was evident in the June PMI surveys for all major ('G4') developed countries. Employment across manufacturing and services rose slightly in the US, UK and Eurozone but headcounts fell again in Japan, having returned to growth for just one month in May.

'G4' PMI Composite Employment Indices

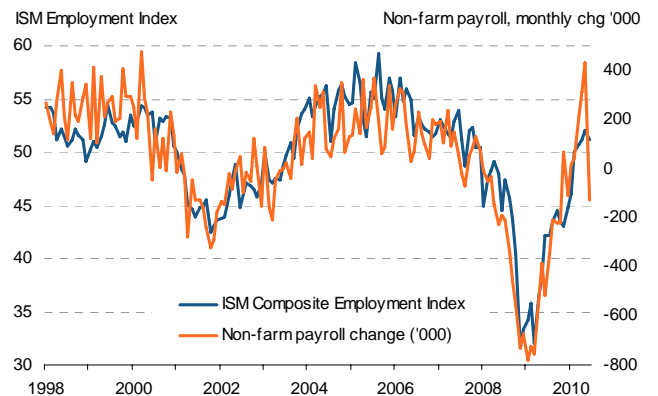


Sources: Markit, ISM.

US payrolls disappoint again

In the US, the official non-farm payroll data have been distorted in recent months by the temporary employment of workers for the census (driving strong growth in May and a pay-back in June). A better indication of the underlying momentum was therefore provided by private sector payrolls, which rose by 83k. This is broadly in line with the c.100k rate of job creation signalled by the ISM's PMI surveys

US non-farm payrolls



Sources: ISM, US Bureau of Labor Statistics.

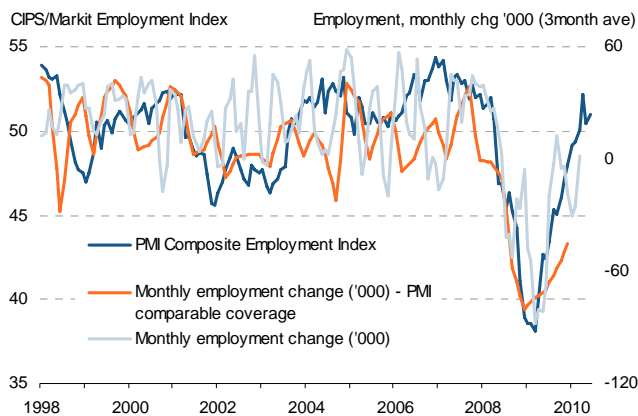
While both non-farm payrolls and ISM data suggest that US employment is rising, the rate of increase clearly remains disappointing. Furthermore, the ISM composite Employment Index, based on a weighted average of its manufacturing and non-manufacturing indices, fell from 52.1 in May to 51.1 in June, to signal a slower rate of job creation. Buoyant jobs growth in US manufacturing was offset by a slight decline in non-manufacturing jobs.

United Kingdom

UK employment data have also been sending mixed signals in recent months, but an improving trend is becoming apparent in the private sector numbers at least (public sector jobs appear to have already begun to fall in response to government spending cuts). The PMI signalled an increase in payrolls for the fourth month running in June. Like the US, the rate of growth was only modest as a robust gain in manufacturing was countered by weakness in services, where headcounts stagnated.

Official employment data are only available at a detailed sector level (allowing a like-for-like comparison with PMI coverage) up to the final quarter of last year, but have followed the improving trend signalled by the PMI. However, with the PMI surveys now showing slower growth of output and new orders, and in particular a survey record fall in service sector confidence in response to the emergency Budget, the risk of a slide back into further job cutting in the private sector has increased.

UK employment



Sources: Markit, CIPS, ONS.

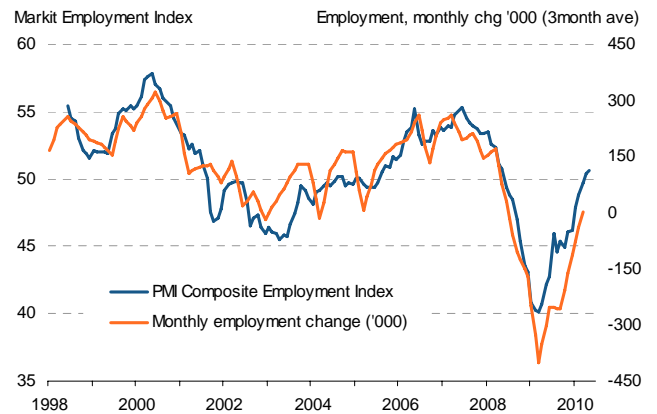
Eurozone jobs boost

Eurozone PMI and official data continue to depict an uneven recovery in the region's labour market. Overall, the Eurozone PMI signalled an increase in jobs for the second successive month in June, with the composite Employment Index reaching a two-year high as small gains were recorded in both manufacturing and services.

However, reasonably good growth in the core countries of Germany and France contrasted with falling levels in Italy and Spain.

What's more, growth of demand for goods and services slowed to a four-month low in June, according to the PMIs, which may well put further pressure on headcounts in coming months if the downward trend continues.

Eurozone employment

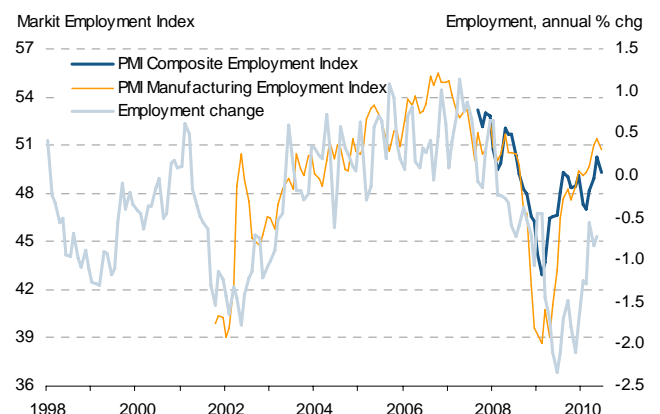


Sources: Markit, Eurostat.

Japan

Having returned to growth (albeit very marginal) in May, employment fell again in Japan in June, according to the manufacturing and service sector PMIs. As seen in many other countries, manufacturing led the job creation, but the increase was countered by a further drop in service sector headcounts.

Japan employment



Sources: Markit, Nomura, Cabinet Office.

Japan is one of the countries that the PMIs suggest is susceptible to a double-dip recession, being dependent upon manufacturing exports in the face of weak domestic demand. Any further slowing of global trade flows is likely to dampen the Japanese recovery and hit the labour market.

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