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Markit Economic Research

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Global employment

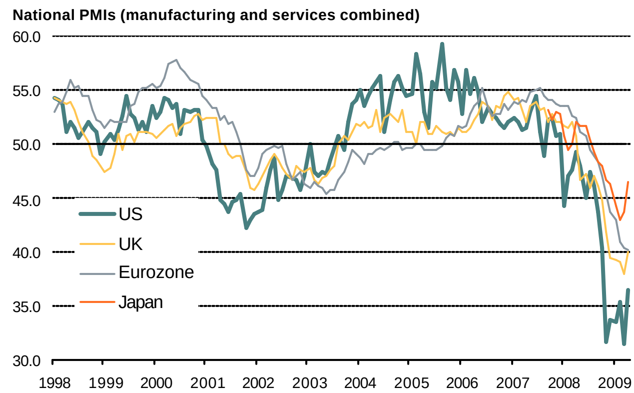
Job shedding may have peaked in the US and UK, but process remains more gradual in the Eurozone

- **PMI data show falls in employment have eased in the US, UK and Japan.**
- **Labour market weakness set to constrain inflationary pressures.**

In line with recent improvements in PMI output and new orders data across many countries, declines in employment have also shown signs of moderating. April figures showed that US private sector staffing levels fell at the slowest pace for six months, while Japan and the UK registered the weakest reductions in five months.

In contrast, the rate of job losses in the Eurozone reached a new series record in April. As illustrated in the chart below, the downturn in euro area employment started later than in the US and UK and continues to lag.

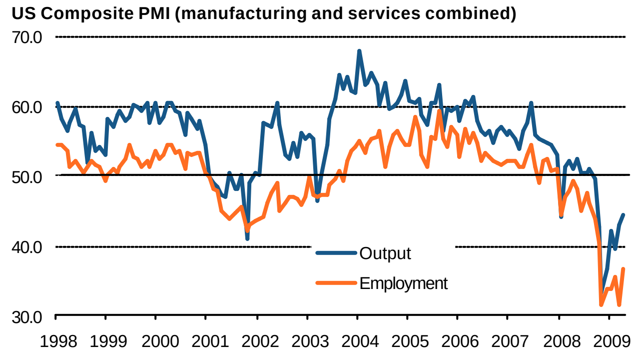
PMI Employment Indices



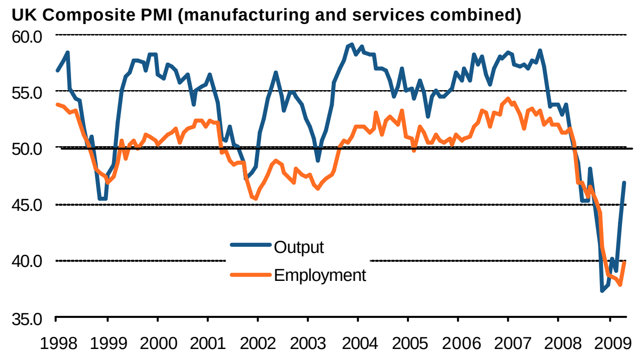
Sources: ISM, Markit Economics

PMI data illustrate how private sector employment in the Anglo-Saxon economies has fallen swiftly and almost in concert with activity – unsurprising given the relatively high degree of labour market flexibility in the US and UK.

US output and employment

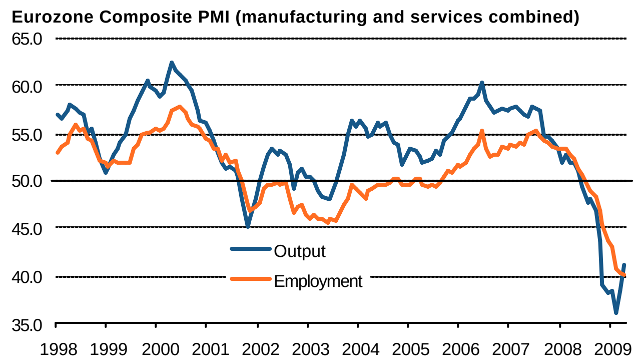


UK output and employment



Meanwhile, the process has been more gradual in the euro area where employment has turned down at a shallower trajectory than output. While it may prove simply a delayed reaction, the cushioning effect on household demand is likely to prove beneficial to the Eurozone economy in the short term at least.

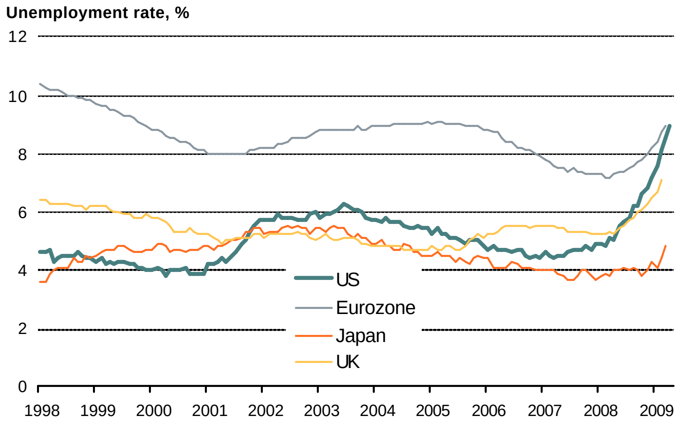
Eurozone output and employment



Reflective of long-standing structural rigidities, the Eurozone headed into the financial crisis with an unemployment rate well above those seen in the US, UK and Japan. The jobless rate in the euro area rose to 8.9% in March 2009 from its most recent cyclical low of 7.2% one year previously.

By comparison, the unemployment rate in the US has jumped from a low of 4.7% in November 2007 to 8.9% in April 2009. The UK has seen unemployment climb from 5.2% to 7.1% in only ten months, whereas in Japan the rise has been modest so far – from a low of 3.8% last October to 4.8% in March.

Unemployment rates



Sources: Bureau of Labour Statistics (US), Eurostat, Ministry of Internal Affairs (Japan), Office for National Statistics (UK)

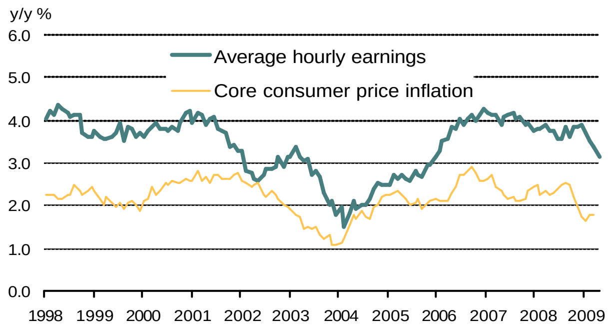
Within the Eurozone, the pain has not been spread evenly across countries. In Spain, the jobless rate hit 17.4% in March, while it was 10.6% in Ireland. That compared with 7.6% in Germany and just 2.8% in the Netherlands.

Trends in PMI employment indices will be important to watch in coming months, as deteriorating labour markets are expected to dilute inflationary pressures, as rising unemployment constrains consumer spending and growth of employee earnings slows.

Pay growth has already turned down sharply in the US, UK, Eurozone and Japan (see charts on right) in line with the slump in global activity over recent months. Correspondingly, core consumer price inflation has generally weakened during this period.

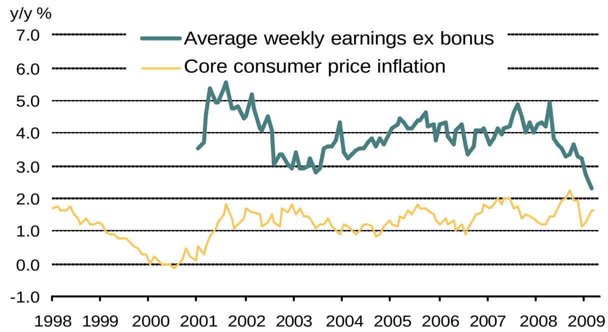
Central banks in particular are relying on rising unemployment and spare production capacity to hold down inflation, and it will be interesting to see whether recent easings in the rates of decline of employment in countries such as the US and UK mark the start of a sustained trend.

US average earnings vs. core inflation



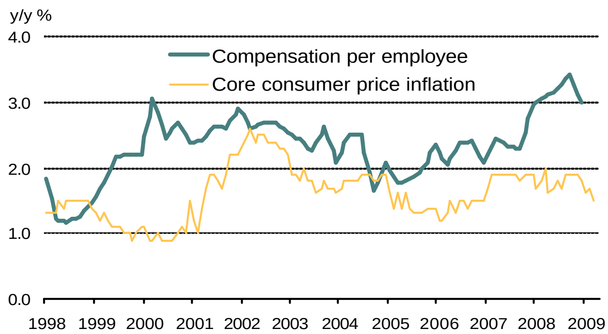
Source: US Bureau of Labor Statistics

UK average earnings vs. core inflation



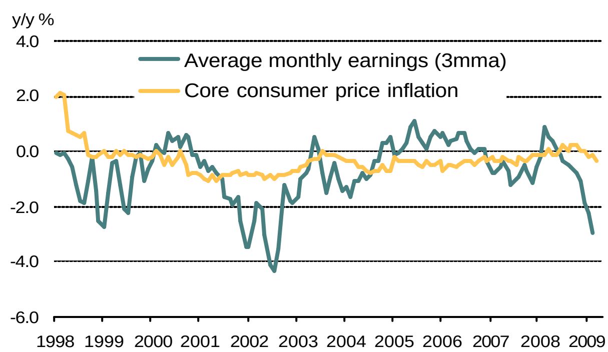
Source: Office for NationalStatistics

Eurozone average earnings vs. core inflation



Sources: ECB, Eurostat

Japan average earnings vs. core inflation



Sources: Ministry of Labour, Ministry of Internal Affairs

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