

Global employment

Broad trend remains towards stabilisation in global labour markets, despite latest disappointment in US payrolls

Job shedding continued in October...

Total employment across the worldwide manufacturing and service sectors fell again in October, according to the Global PMI's Employment Index, compiled by Markit on behalf of JPMorgan. The index dipped to a three-month low of 46.1, from 46.7 in September, signalling a slight acceleration in the pace of job losses.

Weakness was most pronounced in the US, where the ISM surveys of US manufacturing and services signalled the sharpest fall in overall staffing levels for three months. This was echoed by a disappointing US payrolls report, which signalled a decline of 190k jobs in October, larger than market expectations of a 175k drop (although the previous month's figure was revised to show a loss of 219,000, from an initial estimate of 263,000).

Nevertheless, the Global PMI's Employment Index remained considerably higher than March's record low of 38.6, and was also above the average for the past year (42.6) since the collapse of Lehman Brothers. At its current level, the index remains consistent with an estimated 300-350k job losses each month in the US, UK, Eurozone and Japanese economies combined, well down on the record fall of 1.7 million in March.

...but rising workloads should begin to support employment

The pause in upward momentum in the Employment Index in the past two months contrasts with trends in global output and new orders, which both returned to growth in August and rose at the fastest pace for around two years in October. Employment is typically a lagging indicator and, as firms become more confident in the sustainability of the upturn, it is likely that the global labour market will stabilise in the coming months as companies re-assess their staffing requirements. The current historically large gap between the Global PMI New Orders and Employment Indices suggests

Chart 1: US, UK, Eurozone and Japan employment

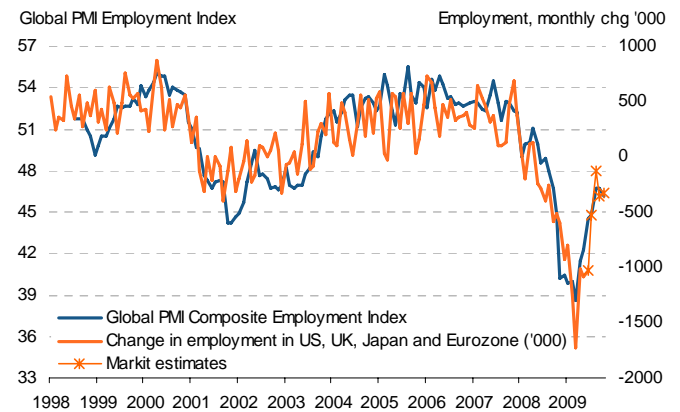


Chart 2: Global employment and order books

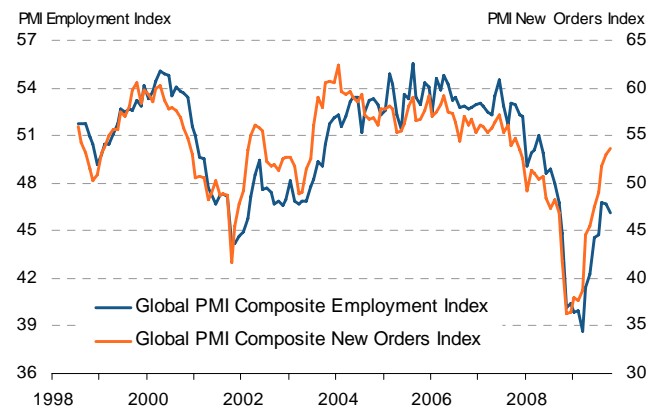
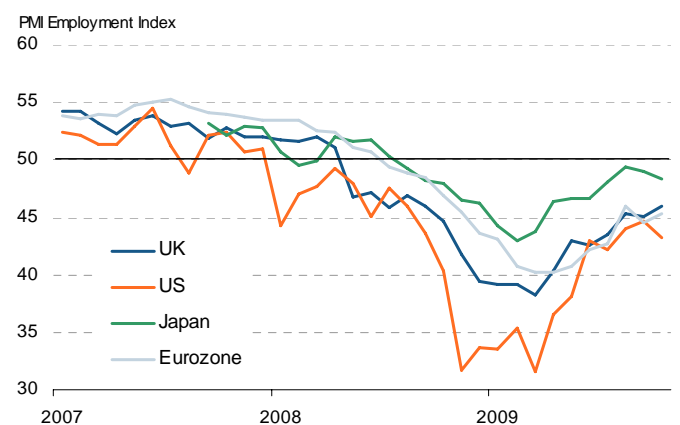


Chart 3: Composite Employment Index by country



Sources: Markit, ISM, Ecwin.

there is considerable scope for improvement with regard to employment trends.

Eurozone and UK saw slower declines in workforce numbers in October

Although October PMI data signalled sharper reductions in employment in the US and Japan, the opposite was true in the Eurozone and the UK. Indeed, improving conditions in the UK labour market have also been signalled in recent months by both official data, which showed a slight net gain in jobs in Q3, and the KPMG/REC Report on Jobs, compiled by Markit (http://www.markit.com/assets/en/docs/commentary/markit-economics/nov%2009/UK_Jobs_09_11_11.pdf).

Despite October's acceleration, Japan continued to record the slowest fall in jobs amongst the major developed economies, as has been the case throughout the downturn. The US posted the steepest fall overall. Yet, with the ISM survey currently signalling the strongest growth of whole economy output since June 2007, the recent slight relapse in employment may well be reversed before the end of the year, as it is unlikely that increased activity can continue to be supported solely through productivity gains.

Unemployment forecasts revised

Consensus forecasts for unemployment rates in 2010 in the Eurozone and the UK have been revised down since June, according to the latest Reuters polls, in line with an improved data flow. The UK unemployment rate is now expected to average 9.2% rather than 9.6% as earlier predicted, while in the Eurozone a rate of 10.6% is anticipated rather than 11.2%. There nonetheless remains scope for a positive surprise in the case of the UK, where the jobless rate has recently edged down from 7.9% to 7.8% amid growing signs that the rise in unemployment has slowed. The same cannot be said for the Eurozone, where unemployment is already approaching the double-digit mark and its major economies are characterised by relatively less flexible labour markets where the adjustment process to recession is likely to be more protracted.

In the US, the unemployment rate is forecast to average 10% in 2010, which will require an improvement from the current position of 10.2%. Japan, meanwhile, is expected to see an average unemployment rate of 5.8% next year. However, latest official data showed the jobless rate unexpectedly

dipped to 5.3% in September from 5.5% in August, signalling some downside risk to the current forecast.

Chart 3: US employment

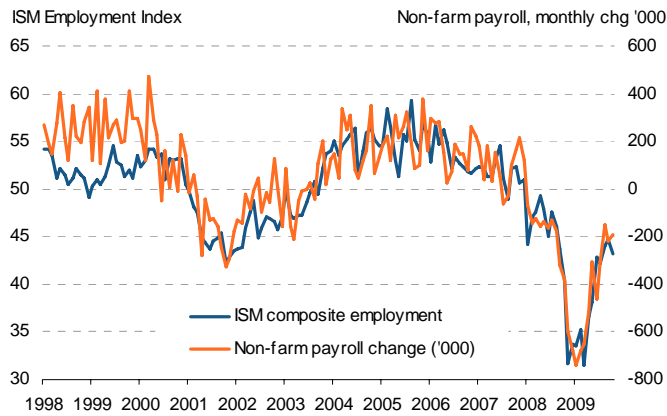


Chart 4: Eurozone employment

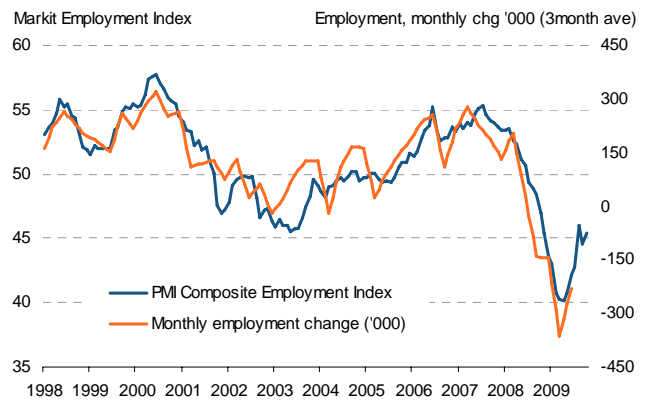


Chart 5: UK employment

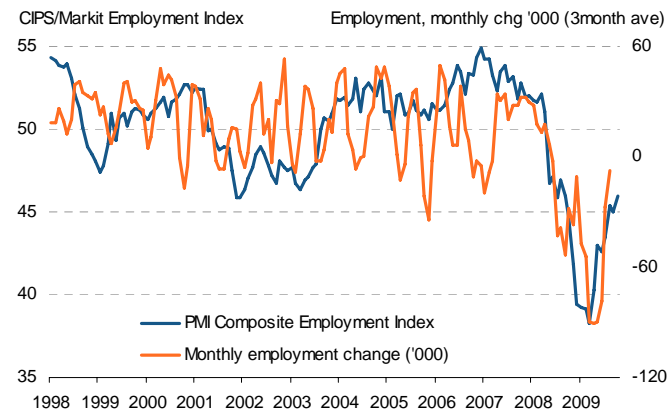
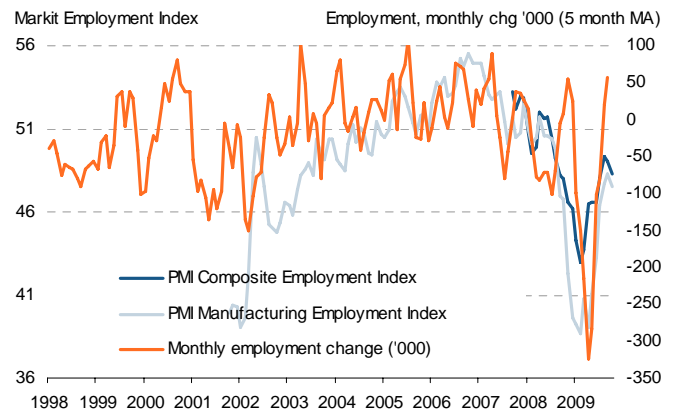


Chart 6: Japanese employment



Jack Kennedy

Economist

Markit

Tel: +44 1491 461087

Email: jack.kennedy@markit.com

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