

Global employment and earnings

Labour market shows early turning point

Labour market turning point.

Markit's survey of UK recruitment consultancies, produced on behalf of REC and KPMG, showed a slight pick up in permanent staff appointments in August – the first such rise in 17 months. The survey points to a stabilisation of the UK recruitment market well ahead of general expectations, boding well for the UK labour market as a whole.

The improved UK labour market trend corresponds with increasing signs of a turning point in staffing trends around the world. The Global PMI's Employment Index, compiled by Markit on behalf of JPMorgan, rose to an 11-month high in August (chart 1). The Index remained below the 50.0 no change level, pointing to a drop in worldwide employment for the sixteenth successive month, but the Index has now risen for five straight months, signalling a marked easing in the rate of job losses over this period.

We calculate from official data that job losses in the US, UK, Eurozone and Japan totalled 1.8m in March (the latest month for which official data are available for all of these countries), but the PMI Index suggests that job losses may have eased to around 500k in August. This is consistent with the US non-farm payroll numbers (available on a more timely basis than comparable data for other countries – see charts 3-6 on page 3), which showed the pace of US job losses slowing from a peak of 741k in January to 216k in August.

Employment to stabilise by end of year?

Employment tends to lag developments in output and order books, and the return to growth of global new orders (covering both manufacturing and services) in August suggests strongly that the rate at which companies are cutting staff will continue to moderate in coming months (see chart 2). If the V-shaped recovery in demand is sustained in the remainder of the second half of this year, or even just steadies, a stabilisation of global employment looks feasible by the end of the year – ahead of current market consensus.

Chart 1: US, UK, Eurozone and Japan employment

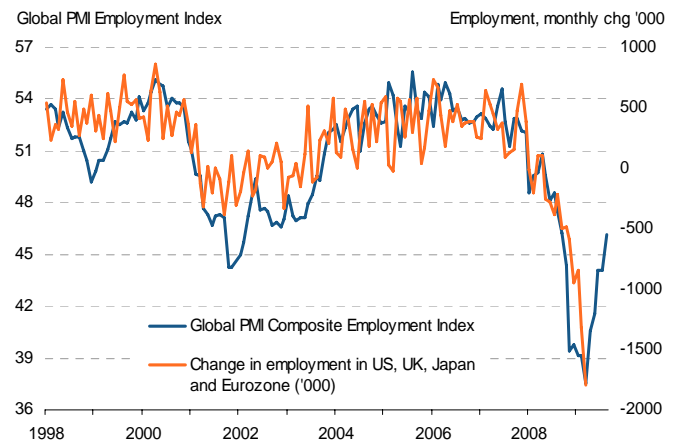
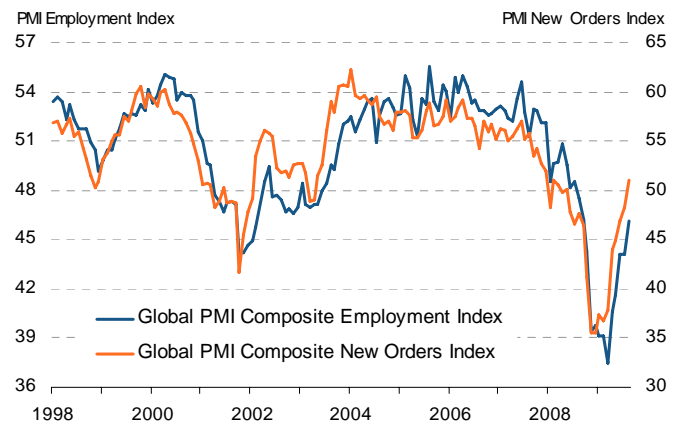


Chart 2: Global employment and order books



Sources: Markit, ISM, Ecwin.

The latest poll by Reuters (conducted in July) noted that unemployment was expected to peak the earliest in the US and Japan, topping out at 10.2% and 5.8% respectively in the first quarter of 2010. UK unemployment was expected to hit 9.5% by the second quarter of next year, and in the Eurozone the jobless rate was expected to continue rising until peaking at 11.4% in the final quarter of 2010. In all cases, no swift return to job creation is anticipated in the consensus forecasts.

However, assuming PMI Composite Employment Indices continue to rise at the same rates seen since the Indices bottomed out earlier this year, US and Eurozone Indices are set to rise above the 50.0 no change level by November, while the UK index will rise above 50 in December and the Japanese Index as early as September.

The recent stronger-than-expected developments in the PMI, and the increase in demand for staff signalled by the UK recruitment industry survey, suggest this consensus view may be overly pessimistic. If so, consumer confidence and consumption may turn out to be stronger than anticipated next year as job insecurities fade and incomes rise, which in turn raises the possibility that current cautious consensus forecasts for GDP growth in 2010 may also be too pessimistic.

Employee earnings growth has slumped but pay has not fallen.

Future trends in private/household consumption and the contribution to GDP growth will of course also depend on take-home pay. Employee earnings growth slumped sharply during the recession (see charts 7-10 on page 3), but average earnings have in fact not yet fallen in the US, UK, Germany and France. Only Japan has seen a decline. Moreover, recent rebounds in PMI indices of the combined output of the manufacturing and service sectors in these countries should result in stronger growth of earnings in coming months, which will also help drive consumer spending.

Recovery may yet be knocked off course.

However, there are many factors which could limit both the demand for staff among employers and growth of employee earnings.

In Germany, in particular, state incentives for firms to retain staff are likely to have a diminishing effect as we move into 2010, especially as government purse strings are tightened after the election at the end of September. Companies are also likely to remain cost-conscious, given the uncertain outlook for 2010. High oil prices could limit energy-intensive industries from increasing their staff costs, and credit is also expected to remain tight – and therefore expensive – for many companies, likewise limiting scope to boost staff costs.

Nevertheless, at present, business surveys such as the PMIs indicate that companies were quick to cut staff costs primarily via lower headcounts (rather than squeezing pay) during the downturn, but are now showing tentative signs of returning to recruitment markets, with a possible stabilisation of the worldwide job market by the end of the year a growing possibility.

Chris Williamson

Chief Economist

Markit

Tel: +44 20 7260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

Chart 3: US employment

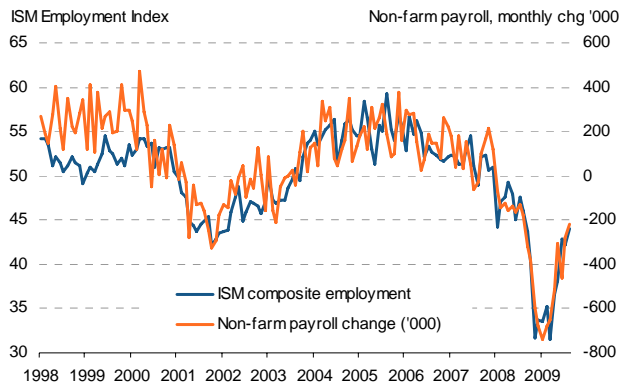


Chart 7: US employee earnings

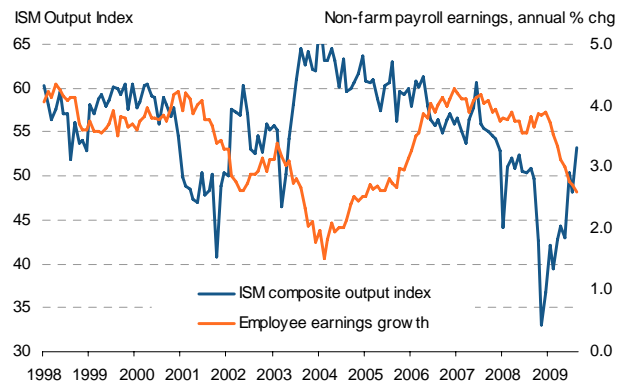


Chart 4: Eurozone employment

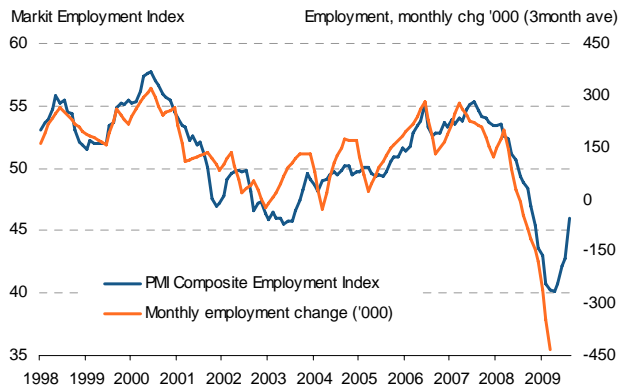


Chart 8: Eurozone employee earnings

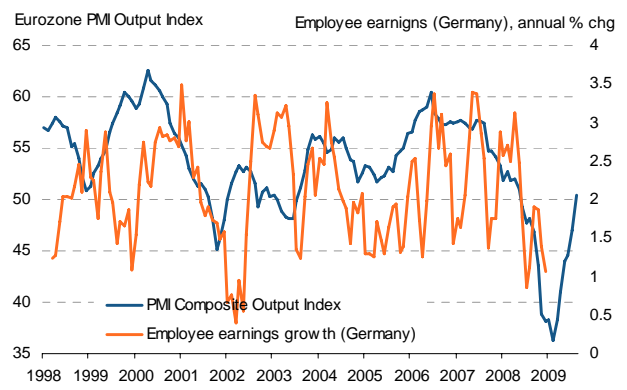


Chart 5: UK employment

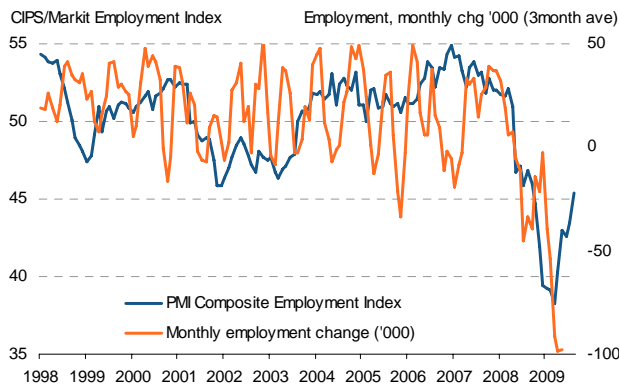


Chart 9: UK employee earnings

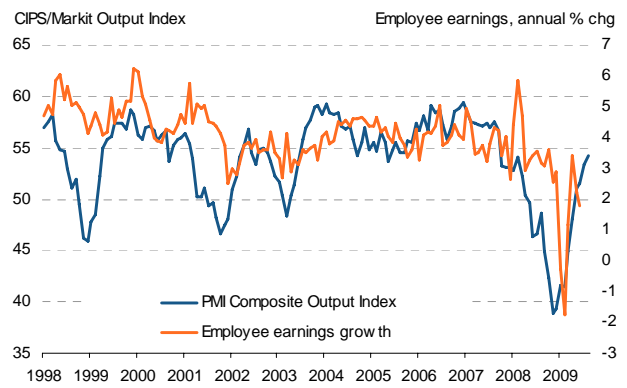


Chart 6: Japanese employment

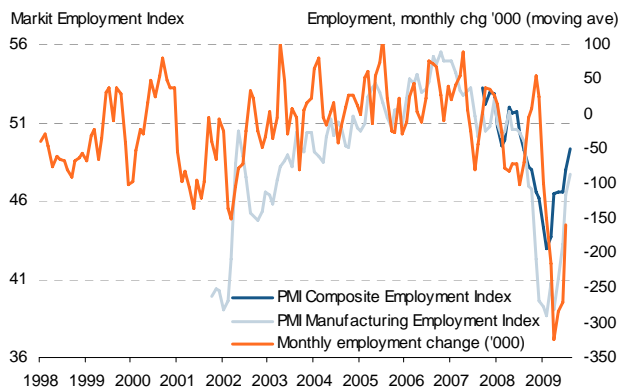


Chart 10: Japanese employee earnings

