

Has the US labour market turned a corner?



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US core CPI came in ahead of expectations last week, for the third month in a row. At 3.8% year-on-year, core inflation is clearly still too high for Fed officials to relax.

With core goods inflation at -0.1%¹, blame lies with the service sector, which, once one strips out housing-related items (referred to as shelter) is mainly driven by labour costs.

Median nominal wage growth in the US in 2023 was 5.2%², which sounds high versus a target inflation rate of around 2-2.5% on CPI. However, considering productivity growth of 2.6%³ over the same period, businesses only needed to raise prices by 2.6% on average in order to maintain margins (5.2% minus 2.6% productivity growth). In other words, 2-2.5% inflation is in sight.

Looking forward, the concern is what will happen if productivity growth falls closer towards its medium term⁴ average of 1.4%. What are the prospects for nominal wage growth following suit? This question is the reason why there is so much interest in the labour market at present.

When trying to capture a market consisting of hundreds of millions of people, it's no surprise that the data isn't perfect. Different definitions mean individuals fall in and out of certain categories at different times, which serves to reduce the usefulness of any one labour market indicator (by way of example, I recently read a great article by TwentyFour Asset Management's David Norris⁵, which describes the different methodologies used to calculate US employment and how they end up giving different signals at times).

Hence it's important to look at a range of time series. For consistency, I've included observations over the last 20 years for each of them. Headline US unemployment at 3.9% at the end of February is low: 18th percentile⁶. Underemployment, which is a broader measure of unemployment that includes categories like discouraged workers, is currently 15th percentile⁷. Initial jobless claims is 3rd percentile⁸ and continuing jobless claims are 29th percentile⁹. For all these indicators, a low percentile rank indicates a tight labour market. Switching to indicators where high rankings indicate the same, the three-month average increase in nonfarm payrolls is 72nd percentile¹⁰ and unfilled positions amongst small businesses is currently in the 79th percentil¹¹, the latter according to the monthly survey by the national federation of independent business (NFIB). All looking pretty hot.

All sources are cited on page 9. Click [here](#) to view.

However, all are demonstrating more slack compared to 6 months ago, with the exception of initial and ongoing jobless claims which underwent a revision last week. Moreover, hiring plans amongst small businesses, which is one of the best forward looking indicators for the labour market, have swung from tight to relatively slack: 44th percentile vs 68th percentile 6 months ago¹².

Taken together, the US labour market does appear to have turned a corner and to be making steady, albeit slow, progress. Other things being equal, this is good news for inflation looking forwards and more good news re the state of the US economy.

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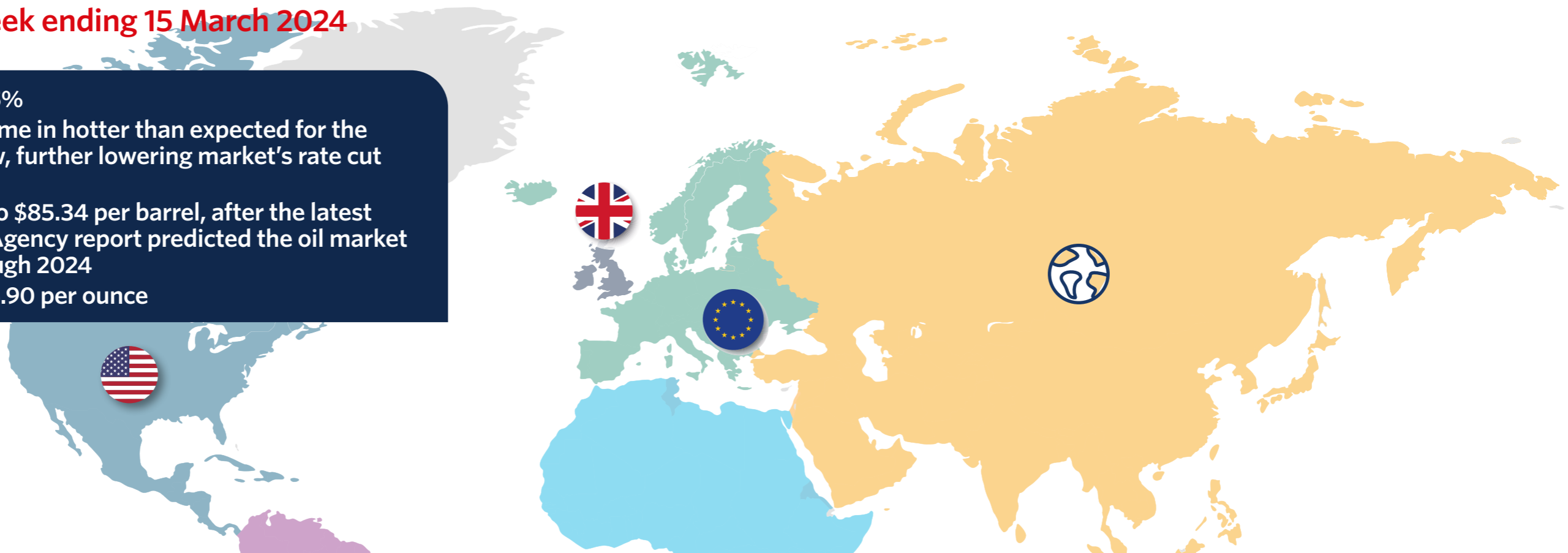


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Market Review - week ending 15 March 2024

- » Global equities fell 0.5%
- » US inflation figures came in hotter than expected for the second month in a row, further lowering market's rate cut expectations
- » Brent crude rose 4% to \$85.34 per barrel, after the latest International Energy Agency report predicted the oil market staying in deficit through 2024
- » Gold fell 1.1% to \$2,155.90 per ounce



US

- » US equities fell 0.1%
- » Month-on-month headline CPI (Consumer Price Index) grew 0.44% in February, taking the year-on-year measure up to 3.2% (vs. 3.1% expected). The core measure grew 0.36%, taking the year-on-year measure to 3.8% (vs 3.7% expected)
- » The NFIB's small business optimism index fell to a 9-month low in February of 89.4 (vs. 90.5 expected)
- » Month-on-month headline PPI (Producer Price Index) increased 0.6% (vs 0.3% expected), pushing the year-on-year measure up to 1.6% (vs 1.2% expected)
- » Headline retail sales increased 0.6% in February (vs 0.8% expected) with the previous month revised down to show a larger 1.1% decline

UK

- » UK equities rose 0.9%
- » UK GDP rose by 0.2% in January, up from a 0.1% contraction in December
- » Wage growth slowed to an 18-month low of 5.6% (vs 5.7% expected)
- » The unemployment rate ticked up to 3.9% (v. 3.8% expected)

Europe

- » European equities rose 0.3%
- » Euro Area industrial production fell 3.2% in January (vs a 1.8% decline expected)

Rest of the World/Asia

- » Global emerging market equities fell 0.1%
- » Japanese equities fell 2.1%, while Chinese equities rose 3.2%
- » The People's Bank of China left their 1-year medium-term lending facility rate at 2.5% as expected
- » Industrial production jumped 7.0% in the first two months of 2024 (vs 5.2% expected), as fixed asset investment grew 4.2% (vs 3.2% expected)
- » Retail sales in China increased 5.5% year-on-year (vs 5.6% expected)
- » Doubts regarding a shift from negative interest rates arose as Bank of Japan Governor Ueda cited "weakness in some household spending data", despite also stating 'my view is that the gradual recovery continues'

Market Performance - week ending 15 March 2024

| Asset Class / Region | Currency | Cumulative returns | | | |
|-------------------------------------|----------|----------------------|---------------|----------|-----------|
| | | Week ending 15 March | Month to date | YTD 2024 | 12 months |
| Developed Markets Equities | | | | | |
| United States | USD | -0.1% | 0.5% | 7.5% | 33.0% |
| United Kingdom | GBP | 0.9% | 1.6% | 1.0% | 9.7% |
| Continental Europe | EUR | 0.3% | 2.4% | 6.9% | 20.8% |
| Japan | JPY | -2.1% | -0.2% | 12.9% | 39.7% |
| Asia Pacific (ex Japan) | USD | -0.7% | 1.7% | 1.2% | 8.8% |
| Australia | AUD | -2.2% | 0.3% | 2.3% | 12.9% |
| Global | USD | -0.5% | 0.9% | 6.4% | 29.5% |
| Emerging Markets Equities | | | | | |
| Emerging Europe | USD | -1.9% | -2.5% | 3.5% | 36.0% |
| Emerging Asia | USD | -0.2% | 2.0% | 2.3% | 10.1% |
| Emerging Latin America | USD | 1.0% | -0.2% | -5.1% | 28.0% |
| BRICs | USD | 0.6% | 0.4% | -0.1% | 5.7% |
| China | USD | 3.2% | 1.9% | -1.2% | -11.5% |
| MENA countries | USD | 0.7% | -0.9% | 3.4% | 15.5% |
| South Africa | USD | -1.6% | 2.7% | -8.6% | 1.6% |
| India | USD | -2.3% | 0.2% | 2.0% | 31.3% |
| Global emerging markets | USD | -0.1% | 1.5% | 1.4% | 12.2% |
| Bonds | | | | | |
| US Treasuries | USD | -1.2% | -0.2% | -1.7% | -0.7% |
| US Treasuries (inflation protected) | USD | -1.2% | -0.3% | -1.2% | -0.2% |
| US Corporate (investment grade) | USD | -1.0% | 0.2% | -1.0% | 5.2% |
| US High Yield | USD | -0.3% | 0.5% | 0.8% | 13.0% |
| UK Gilts | GBP | -0.9% | 0.4% | -3.1% | -2.7% |
| UK Corporate (investment grade) | GBP | -0.3% | 0.9% | -0.8% | 5.7% |
| Euro Government Bonds | EUR | -1.0% | 0.3% | -1.3% | 2.3% |
| Euro Corporate (investment grade) | EUR | -0.4% | 0.4% | -0.3% | 5.8% |
| Euro High Yield | EUR | 0.2% | 0.7% | 1.9% | 11.9% |
| Japanese Government | JPY | -0.4% | -0.6% | -1.0% | -2.6% |
| Australian Government | AUD | -0.8% | 0.1% | -0.2% | 0.3% |
| Global Government Bonds | USD | -1.5% | 0.1% | -3.0% | -1.4% |
| Global Bonds | USD | -1.3% | 0.3% | -2.3% | 1.8% |
| Global Convertible Bonds | USD | -1.1% | 0.5% | -1.3% | 8.3% |
| Emerging Market Bonds | USD | -0.8% | 0.7% | 0.8% | 10.6% |

| Asset Class / Region | Currency | Cumulative returns | | | |
|---------------------------------------|----------|----------------------|---------------|----------|-----------|
| | | Week ending 15 March | Month to date | YTD 2024 | 12 months |
| Property | | | | | |
| US Property Securities | USD | -2.9% | -0.7% | -3.0% | 8.2% |
| Australian Property Securities | AUD | 0.8% | 4.3% | 10.4% | 19.8% |
| Asia Property Securities | USD | 0.2% | 0.8% | -5.1% | -5.2% |
| Global Property Securities | USD | -2.0% | 0.3% | -3.4% | 7.6% |
| Currencies | | | | | |
| Euro | USD | -0.5% | 0.8% | -1.6% | 3.1% |
| UK Pound Sterling | USD | -0.9% | 0.9% | -0.3% | 5.6% |
| Japanese Yen | USD | -1.3% | 0.6% | -5.5% | -10.7% |
| Australian Dollar | USD | -1.0% | 1.0% | -4.1% | -0.7% |
| South African Rand | USD | -0.2% | 2.3% | -2.8% | -1.8% |
| Swiss Franc | USD | -0.8% | 0.0% | -5.1% | 5.3% |
| Chinese Yuan | USD | -0.1% | -0.1% | -1.3% | -4.0% |
| Commodities & Alternatives | | | | | |
| Commodities | USD | 2.1% | 3.1% | 4.5% | 9.6% |
| Agricultural Commodities | USD | 1.4% | 2.1% | 3.4% | 7.3% |
| Oil | USD | 4.0% | 2.1% | 10.8% | 15.8% |
| Gold | USD | -1.1% | 5.4% | 4.5% | 12.0% |

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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Sources of data from Global Matters Weekly 18 March are stated below:

¹Bloomberg Finance L.P., US CPI Commodities Excluding Food and Energy Commodities contribution to All Items Less Food and Energy NSA YoY (ECANYA4K). ²Bloomberg Finance L.P., US Atlanta Fed Wage Growth Tracker Median (WGTRMEDI). ³ Bloomberg Finance L.P., US Nonfarm Business Sector Output per hour of all persons YoY SA (PRODNFRY). ⁴10 year and 20 year averages, to 1 d.p. ⁵ "Unemployment in the US: a tale of two surveys" by David Norris, Partner and Head of US Credit. The TwentyFour Blog, 12 March 2024. ⁶Bloomberg Finance L.P., U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted (USURTOT). ⁷ Bloomberg Finance L.P., US U-6 Unemployed & Part Time & Margin % Labor Force & Margin SA (USUDMAER). ⁸ Bloomberg Finance L.P., US Initial Jobless Claims 4-Week Moving Average SA (INJCJC4). ⁹ Bloomberg Finance L.P., US Continuing Jobless Claims NSA (INJCSPNS). ¹⁰ Bloomberg Finance L.P., US Employees on Nonfarm Payrolls Total MoM Net Change SA (NFP TCH). ¹¹ Bloomberg Finance L.P., NFIB Small Business Job Openings Hard to Fill (SBOIEMPL). ¹² Bloomberg Finance L.P., NFIB Small Business Hiring Plans Index (SBOIHIRE).

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