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Economic Outlook

Revised data likely to temper US jobs revival

By Chris Flood

US president Barack Obama's promise to boost spending on job creation and the big improvement in US economic growth in the fourth quarter has fuelled hopes for a revival in America's labour market this year.

Employment data for January, due to be published on Friday, are expected to show non-farm payrolls rose 27,000, which would leave the unemployment rate unchanged at 10 per cent.

However, the January release will include some important revisions to the historic data that are likely to show that the fall in US employment since the recession began was larger than previously estimated.

Paul Dales at Capital Economics says the revisions are likely to reveal that US employment has fallen by 9m rather than the present estimate that 7.2m jobs have been lost.

Mr Dales says this is because the payroll survey could be putting too little weight on the tough conditions still being faced by smaller companies, which are continuing to struggle as credit conditions remain tight.

The revised labour market data should also have important implications for the outlook for US interest rates. Most analysts expect the Federal Reserve to begin tightening monetary policy this year, but Capital Economics thinks US interest rates could remain on hold until 2012.

US labour force participation – the number of people employed or actively looking for work – has recorded its largest one-year drop on record with a fall of 1.2 percentage points to 64.6 per cent. Much of the drop is because of younger workers opting for additional education or training.

Andrew Tilton of Goldman Sachs says many of them will begin to look for work, since they have not retired or dropped out of the labour force permanently, so the unemployment rate could rise sharply this year.

"Outright job growth of more than 100,000 per month will soon be needed to keep the unemployment rate from rising further," Mr Tilton said.

Both the European Central Bank and Bank of England will keep interest rates unchanged at their meetings on Thursday so the main focus will be whether UK policymakers decide to extend their £200bn asset-purchase programme.

The purchasing managers surveys this week will provide a timely update on activity as the UK has not yet clearly established a sustainable recovery. Fourth-quarter data showed the economy was struggling to escape recession. The risk of a double-dip recession remains significant following the increase in value added tax in January and the disruptions caused by heavy snow nationwide.

However, estimates of economic activity are usually subject to revision, particularly around turning points, and inflation is rising, so the suspension of the Bank's asset-purchase programme appears to be likely.