US JOBS ARE BEING CREATED. THEY ARE HIGHLY SKEWED

BY ROBERT ROUNTREE

US RATES COULD REMAIN SOFT FOR A LONG TIME

Any investors who were anticipating a rise in US interest rates based on the US non-farm payrolls data, will, no doubt, be in something of a quandary.

The Federal Reserve Board had previously indicated that once employment fell to 6½% and the jobs numbers improved, the stage would be set for the next interest rate upswing. (The Fed had also indicated that it could raise rates should inflation rise to higher than 2½%).

Well, the unemployment numbers have fallen to a tad over 5% and US non-farm payrolls are four million higher than when the 2008 crisis first hit. Even though inflation is flat lining, that sounds like "home and dusted" to us.

And yet, the FOMC is prevaricating. Why?

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Now, the FOMC usually only looks at the headline data when deciding on the path of interest rate policy as it believes it cannot influence the composition of that data.

And yet this is precisely where the problem lies, it seems. Take a look for yourself (please refer to Figure 1 below).

Of the 4 million jobs created since early 2008, 4.4 million were taken by those aged between 55 and 64 years old. Around 2.8 million were taken by those *aged over 65 years old*.

MORE JOBS FOR 55+ WON'T BOOST SPENDING

Put another way, if the jobs created for those aged 55 and over total 7.2 million (4.4+2.8), then *3.2 million jobs (7.2-4.0) were lost in the other age groups* (although jobs have risen a tad for 16~24 year olds).

Pay rates for 55+ are unlikely to be stellar. One must also ask why a flood of 55+ workers should be returning to the jobs market. Is it because their pensions are insufficient, a situation low interest rates would only exacerbate?

If so, the surge in consumer spending for which the Fed is looking, will unlikely find its source in this age grouping. They are more into saving, one would surmise.

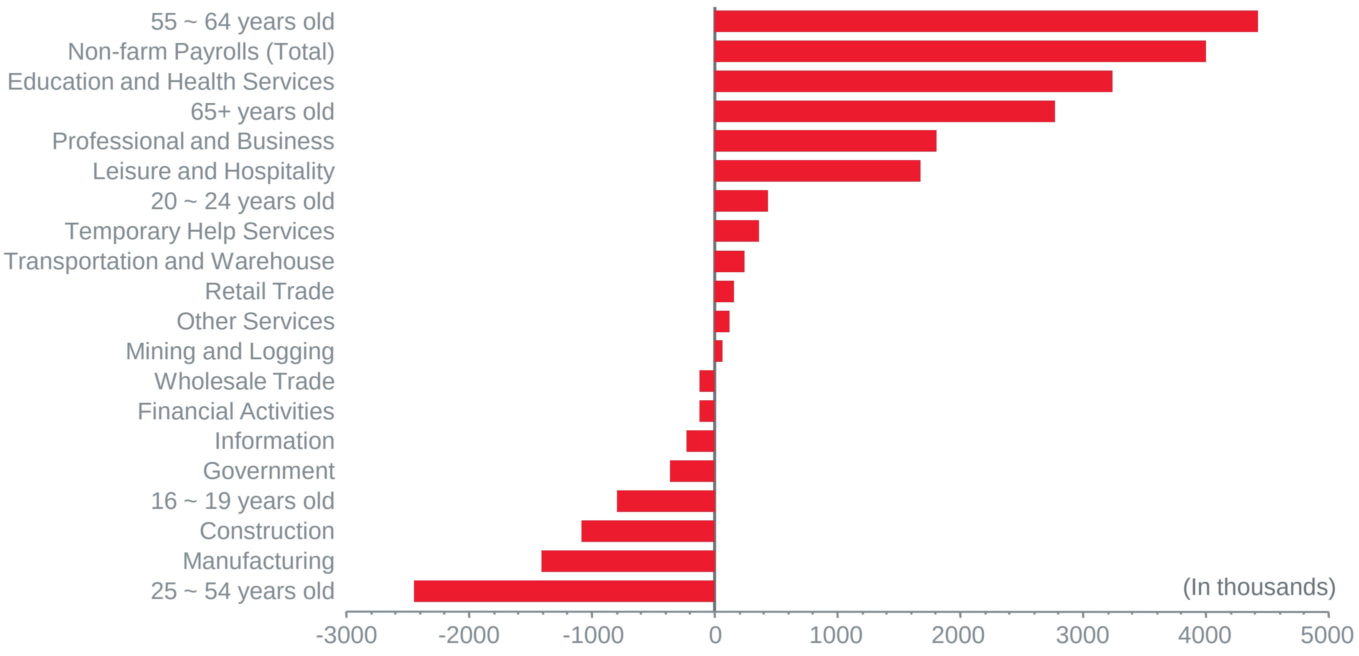
THE JOBS CREATED POSE ANOTHER ISSUE

Take a closer look at the chart below – 4.9 million new jobs were created in the Education and Health, and Leisure and Hospitality sectors. Again, simple arithmetic tells us that 900,000 jobs were lost mostly in the manufacturing and construction sectors.

True,1.8 million jobs were created in the Professional and Business sector; many will be high paying. But the numbers seem insufficient to drive the US economy into a higher gear.

The bottom line? If the Fed is looking for a surge in consumer spending based on the jobs numbers to signal a sustained rise in rates, it might be waiting a long time.[1] It looks as though income type products still have plenty of shelf life!

Fig. 1 : The US creates jobs, but not in the right places
(Jobs created by sector and age grouping since January 2008**)**



Source: Bureau of Labor Statistics, U.S. Department of Labor from Datastream as at 9 October, 2015. [1] It would not surprise us to see a "symbolic" ¼% rise in the Fed Funds Rate this year, but any rises after than seem limited.

For more information contact: content@eastspring.com | T: +65 6349 9100

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