beyond*the*headlines

9 October 2015

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?

US JOBS CREATED ARE HIGHLY SKEWED

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.

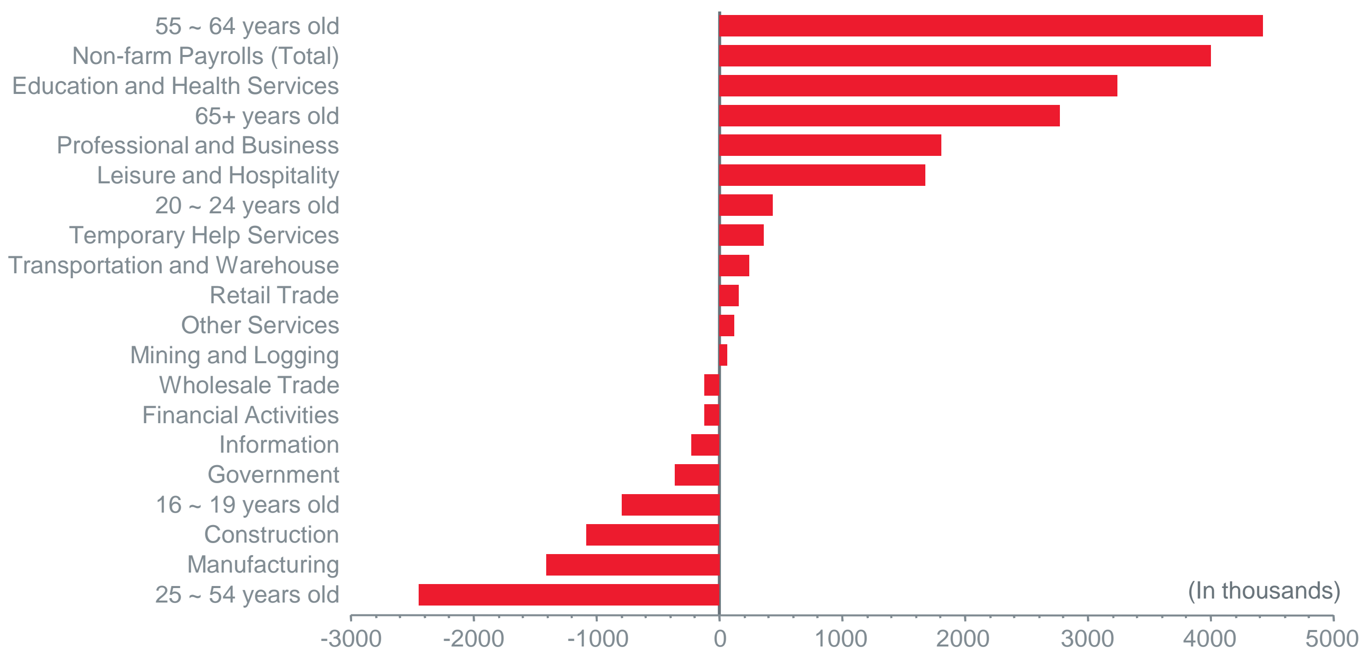
THE JOBS CREATED POSE ANOTHER ISSUE

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

Source: Eastspring Investments (Singapore) Limited.

eastspring investments

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore and Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (Company Reg. No: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

United Arab Emirates by Eastspring Investments Limited which has its office at Precinct Building 5, Level 6, Unit 5, Dubai International Financial Center, Dubai, United Arab Emirates. Eastspring Investments Limited is duly licensed and regulated by the Dubai Financial Services Authority (DFSA). This information is directed at Professional Clients as defined by the Conduct of Business rulebook of the DFSA and no other person should act on it.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (Company Reg. No. 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

Luxembourg (for institutional and professional investors only) by Eastspring Investments (Luxembourg) S.A., Grand-Duchy of Luxembourg.

United Kingdom (for institutional and professional investors only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 125 Old Broad Street, London EC2N 1AR.

Chile (for institutional clients only) by Eastspring Investments (Singapore Limited (Company Reg. No: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as Eastspring Investments.

This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments.

Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication but Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments (excluding JV companies) companies are ultimately wholly-owned / indirect subsidiaries / associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.