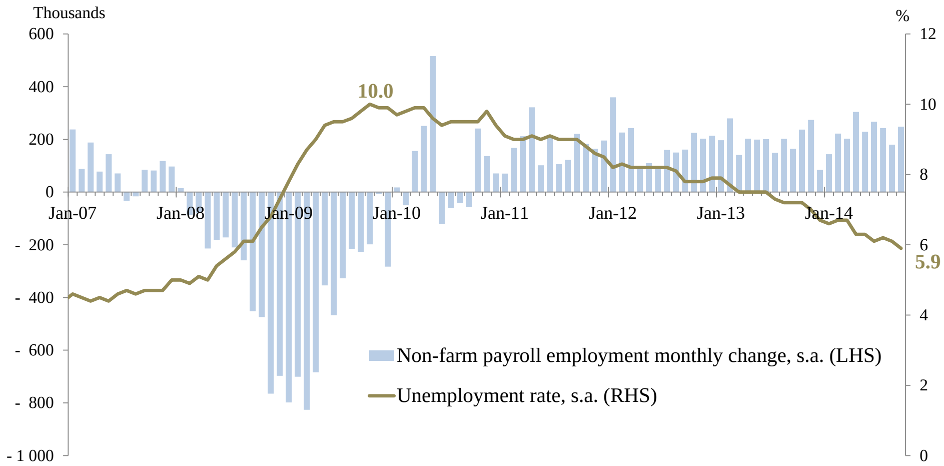
Box 1.1

Recent developments in the US labour market

The US labour market has been gradually improving from the plight following the global financial crisis. This note briefly reviews some major indicators for the US labour market and discusses the possible implications for the future path of the US monetary policy.

Since late 2010, job creation in the US, in terms of the increase in non-farm payroll, has been continuing for 48 consecutive months by September 2014. The pace of creation has been quite impressive on entering 2014, at a monthly average of 226 700, surpassing the past few years' average. Against this backdrop, the unemployment rate, after hitting a peak of 10.0% in late 2009, fell successively to 5.9% in September 2014 (***Chart 1***). Nevertheless, it was still higher than the pre-crisis level, at an average of 5.2% in 2003-2007.

Chart 1 : Unemployment rate has been declining amid sustained job creation

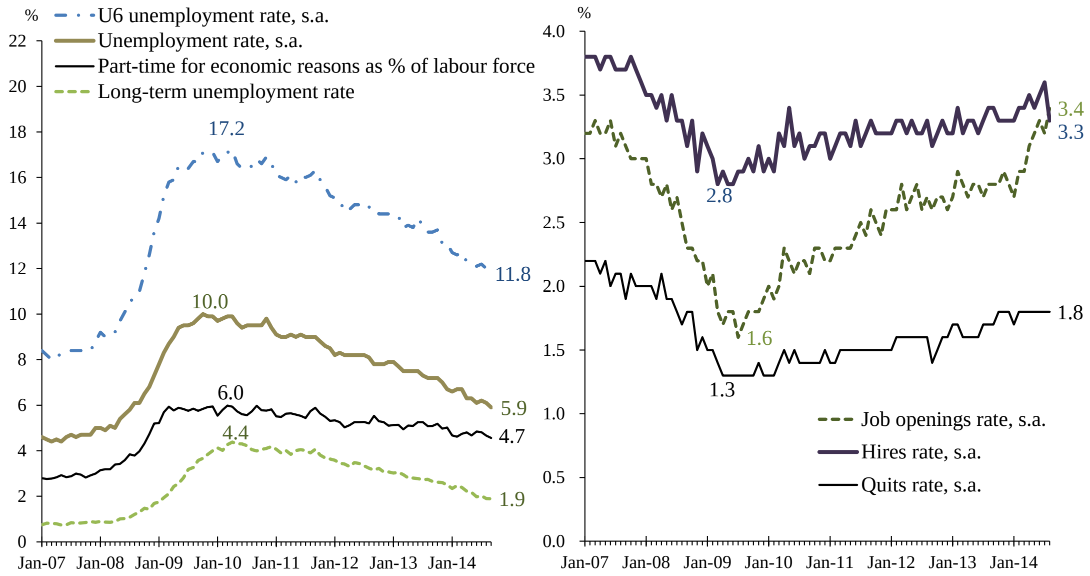


Many other US labour market indicators also improved. As a broader measure of unemployment including the marginally attached workers (i.e. those looking for jobs sometime in the past 12 months but not currently classified in the labour force) and the underemployed, the U6 unemployment rate has also been falling alongside the headline unemployment rate. Likewise, the share of involuntary part-time and the long-term unemployment rate went lower (***Chart 2a***).

Chart 2 : Many other labour market indicators also improved

(a) Unemployment and underemployment indcators

(b) Job openings, hires, and quits rates



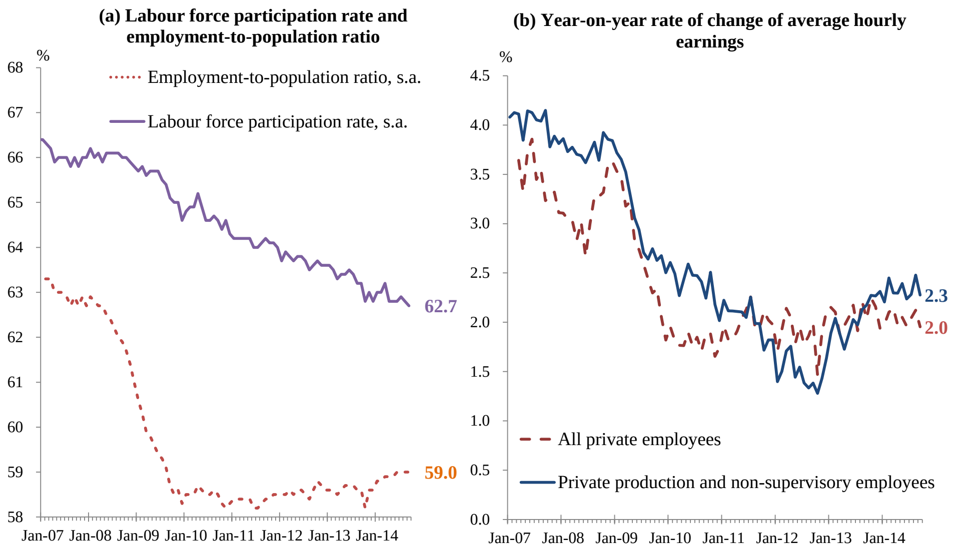
Box 1.1 (Cont'd)

Private sector job openings and the job hires and quits rates(1) have also gradually climbed up, suggesting that hiring sentiment turned more positive given the recent improved performance of the economy and that workers became more aggressive in changing jobs (***Chart 2b***).

Nevertheless, the labour force participation rate (LFPR) has largely kept declining. Indeed, the LFPR has been on a secular downtrend after peaking at 67.3% in early 2000, although it fell more sharply during the global financial crisis. This in turn constrained the recent rise in the employment-to-population ratio, despite sustained job creation (***Chart 3a***). The reasons for the decline in LFPR have been much debated. Recent research results tend to suggest that the fall could have been driven more by demographic and structural than by cyclical factors.

Recent attention also focused on the implications of the labour market recovery for inflation. Earnings growth actually remained quite sluggish, with the average hourly earnings rising at around 2% year-on-year, translating into rather meagre real income gains (***Chart 3b***). Some analysts suggested this as an evidence of the slack in the labour market.

Chart 3 : LFPR showed no signs of a reversal, and earnings growth remained sluggish



The median forecast by members of the US Federal Open Market Committee in September indicated that the US federal funds rate would rise to 1.375% by end-2015. However, such a forecast was predicated on a sustained strengthening of the US economy. The recent heightened volatility in stock and bond markets and declines in commodity prices suggest that markets are rather concerned about the global outlook, given the weakness in the eurozone and growth slowdown of the major emerging markets. The possible consequences of the global economic situation for the US economy would add to the uncertainty about the pace of US monetary policy normalisation. Conversely, any perceived misjudgment on the part of the US Federal Reserve (Fed) will result in greater volatility in financial markets and capital flows to the detriment of the global economy.

The Fed adopts a data-dependent approach in determining the future path of its monetary policy. Given the Fed's dual mandate of maximum employment and price stability, the evolving US labour market conditions, together with the US inflation trend, will be the main considerations. We need to monitor closely these developments.

(1) The hires (quits) rate is the number of hires (quits) during the month divided by the number of employees who worked during or received pay for the pay period.