United States

At a crossroads

- **The labour market is stabilising, with enough job creation to keep the unemployment rate unchanged.**
- **On a broad measure, the absorption of underemployment has come to a halt.**
- **Although that could be cause for concern, it is also partly due to the brief dip in activity in early 2016. In any case, this makes the Fed's cautious stance easier to understand.**

The outlook for the US economy is uncertain, and the message provided by surveys is neither very clear nor very consistent. For example, the manufacturing ISM index rebounded in March but fell back in April. However, it remains above 50 and its employment component is improving. The labour market is continuing to send positive signals. Although the unemployment rate has risen slightly from its February low of 4.9% to 5% in March and April, it remains within the estimated range for the NAIRU (Non-Accelerating Inflation Rate of Unemployment). Although job creation was slower in April than in the previous six months, the 160,000 jobs created then are enough to stabilise the unemployment rate, assuming an unchanged level for the labour participation ratio. Although initial jobless claims have risen in the last few weeks, the 4-week moving average is at its lowest level since the first oil shock.

The message provided by economic data – both hard and soft – is rarely unequivocal. Contradictions can often be found within the same survey, which is why it can be easier to read data pulling together them into a single indicator. As regards the economic outlook, our in-house indicator is the M&N, a weighted sum of data from the two ISM surveys. The message from that indicator is that the US economy has slowed in early 2016, with activity falling back to the previous post-recession low points, but also rapidly bottomed out to strengthen in March and April.

As for the labour market, we came up with two different indicators. The first, the SLACK Index, measures underemployment or as Janet L. Yellen once called it the "shadow unemployment". The second is actually double, the Ben Index and the Janet Index, and includes a leading component. As a result, the SLACK index shows progress made, while the Ben and Janet indexes are also partly forward-looking[1]. All three indexes are sending the same message: the labour market has shown no further improvement since late 2015.

The fact that the labour market has stopped improving could simply be because economic activity was weak in early 2016. On that assumption, and if the upturn in our M&N Index is confirmed, the labour market could regain momentum. However, it is also reasonable to be concerned about the lack of improvement in the job market. Consumer spending and residential investment not only make up most of US demand. They have also propped up growth in the last few quarters. If they were to stall, there is almost nothing else capable of supporting US growth, which would therefore decelerate. The situation makes the cautious approach adopted by the Fed, which knows that it has limited scope for action, easier to understand. Note, however, that there is no need for excessive pessimism, since the absorption of underemployment has paused several times recently without pushing down consumer spending.

After the major recession

— M&N index (3-month moving average)
Since April 2010: — Average; --- Min / Max

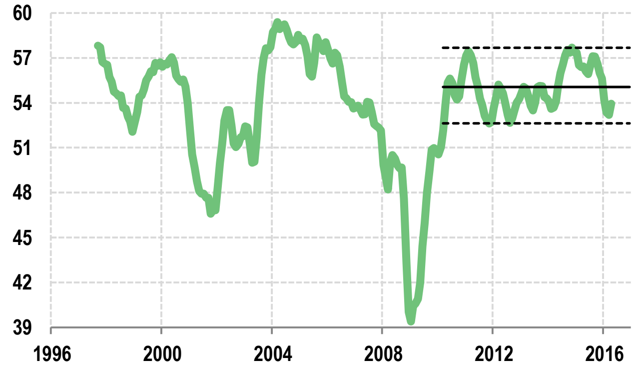

Figure 1 Source: BNP Paribas Economic Research

Stable employment

— SLACK index ; — Ben index; --- Janet index

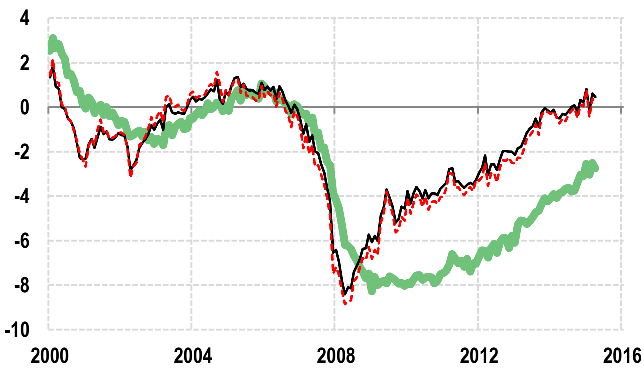

Figure 2 Source: BNP Paribas Economic Research

[1] For more details on these indicators, see "The truth is out there, or why the falling unemployment rate is late accelerating wages", Alexandra Estiot, Conjoncture BNP Paribas, October-November 2014.