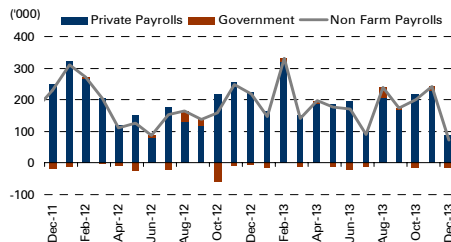


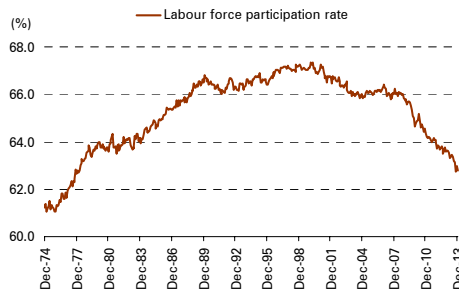
## US: NFP came lower than expectation; concern one off

**Fig 1: The slower job addition was broad based**



Source: Bloomberg, ICICI Bank Research

**Fig 2: Falling labour force participation rate remains a concern**



Source: Bloomberg, ICICI Bank Research

- **Non-farm payrolls (NFP) increased by only “74K” in December led by severe winter weather.**
- **Unemployment rate edged lower to 6.7% in December from 7.0% in November**
- **Though NFP data came as a negative surprise, US economy is still on a gradual recovery path. We expect the Fed to maintain caution and gradually reduce its asset purchase program.**

### **NFP surprised on the downside primarily on severe winter weather**

Non-farm payrolls (NFP) increased by 74K in December, much lower than market expectations of an increase of 195K. The weaker job addition during December is majorly explained by the severe winter weather. Total job additions for November were revised to 241K (from 203K) respectively, taking the 2013 monthly average to 182K, same as in 2012.

### **The slower job addition was broad based**

Component wise, both the private and the government sector led to the sharp slowdown in job addition. Private sector employment increased by 87K in December (vs. 226K in November), the lowest job addition since June 2012. Meanwhile, the services producing sector, which accounted for ~72% of the total job growth, saw job addition of 90K in December (vs. 175K in November).

Meanwhile, the Government sector jobs growth turned negative during the month. The sector reduced 13K jobs in December, following an increase of 15K in November.

### **Unemployment rate edged lower to 6.7%**

As per the household survey, the unemployment rate edged lower to 6.7% in December, from 7.0% in November. Meanwhile, the labour force participation rate dropped to 62.8% in December from 63.0% in November. During 2013, the labour force participation rate has reduced by 0.8 percentage point. Though falling unemployment rate is a positive development, the decline in the size of labour force is a cause of concern. The size of the labour force has actually reduced by 548K in 2013.

### **Market impact**

The lower than expected labour market data, led to a rally in the US Treasury 10 year bond. The yield on the benchmark 10-year Treasury note fell to 2.85% from 2.96% ahead of the NFP data. Meanwhile, the Dollar index sold off from 81.20 levels to ~80.62 levels.

### **We expect Fed to gradually taper its assets purchase program**

We see a major part of the weakness in NFP data as temporary one off weather related hit though the softness in overall job markets cannot be ignored. We maintain that the US economy is on a gradual recovery path and not on a strong footing as suggested by 4.1% QoQ (annualized) growth in Q3'2013. In this regard, we believe that the Fed will remain cautious in its tapering stance and gradually reduce its asset purchase program through the remainder of the year.

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Samir Tripathi

[samir.tripathi@icicibank.com](mailto:samir.tripathi@icicibank.com)

Tel no: +91-22-4008-7233

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ICICI Bank: ICICI Bank Towers. Bandra Kurla Complex. Mumbai- 400 051. Phone: (+91-22) 2653-1414

## Treasury Research Group

### Economics Research

Sunandan Chaudhuri	Senior Economist	(+91-22) 2653-7525	sunandan.chaudhuri@icicibank.com
Kamalika Das	Economist	(+91-22) 2653-1414 (ext 6280)	kamalika.das@icicibank.com
Kanika Pasricha	Economist	(+91-22) 2653-1414 (ext 2260)	kanika.pasricha@icicibank.com
Samir Tripathi	Economist	(+91-22) 2653-7233	samir.tripathi@icicibank.com
Tadit Kundu	Economist	(+91-22) 2653-1414 (ext 2087)	tadit.kundu@icicibank.com
Pooja Sriram	Economist	(+91-22) 2653-1414 (ext 2023)	pooja.sriram@icicibank.com
Nikhil Gupta	Economist	(+91-22) 4259-2180	nikhil.gupta@icicibank.com
Shanjukta Nath	Economist	(+91-22) 2653-1414 (ext 2085)	shanjukta.nath@icicibank.com

### Treasury Desks

Treasury Sales	(+91-22) 2653-1076-80	Currency Desk	(+91-22) 2652-3228-33
Gsec Desk	(+91-22) 2653-1001-05	FX Derivatives	(+91-22) 2653-8941/43
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