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International

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Economic Alert: U.S. job growth accelerates in June, but wages continue to lag.

- U.S. job growth surged more than expected in June and employers increased hours for workers, showing signs of labor market strength that could keep the Federal Reserve on course for a third interest rate increase this year.
- Non-farm payrolls jumped by 222,000 jobs last month, beating economists' expectations for a 179,000 gain. Revised data for April and May show 47,000 more jobs created than previously reported.
- While the unemployment rate rose to 4.4% from a 16-year low of 4.3%, that was because more people were looking for work, a sign of confidence in the labor market. The jobless rate has dropped four-tenths of a percentage point this year and is near the most recent Fed median forecast for 2017.
- The average work week increased to 34.5 hours from 34.4 hours in May. Labor market buoyancy could also encourage the U.S. central bank to announce plans to start reducing its \$4.2 trillion portfolio of Treasury bonds and mortgage-backed securities in September.
- The Fed raised its benchmark overnight interest rate in June for the second time this year. But with inflation retreating further below the central bank's 2 percent target in May, economists expect another rate hike only in December.
- June's employment gains exceeded the 186,000 monthly average for 2016, reinforcing views that the economy regained speed in the second quarter after a sluggish performance at the start of the year.
- But the pace of job growth is expected to slow as the labor market hits full employment. There is growing subjective evidence of companies struggling to find qualified workers.
- As a result, companies are gradually raising wages in an effort to attract and retain their employees. Economists expect worker shortages to boost wage growth, which has remained stubbornly sluggish despite the tightening labor market.
- Average hourly earnings increased four cents or 0.2% in June after gaining 0.1% in May. That lifted the year-on-year increase in wages to 2.5% from 2.4% in May.
- The labor force participation rate, or the share of working-age Americans who are employed or at least looking for a job, rose one-tenth of a percentage point to 62.8%.

- Employment gains were broad in June, with manufacturing payrolls increasing 1,000 after factories shed 2,000 jobs in May. But the automobile sector lost a further 1,300 jobs as slowing sales and bloated inventories force manufacturers to cut back on production.
- Construction added another 16,000 jobs last month while Retailers hired 8,100 workers, a surprise respite for a sector which had shed employment for four straight months.
- U.S. government debt prices were slightly lower as investors scrutinized the monthly employment report for June.
- Yields on the benchmark 10-year Treasury notes were higher at around 2.38%, while the yield on the 30-year Treasury bond was slightly higher at 2.93%. The yield on the 2-year Treasury note hit a low of 1.39%, its lowest level since July 3, 2017.



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