Box 2

## THE IMPACT OF RECENT EMPLOYMENT DATA RELEASES IN THE UNITED STATES ON GLOBAL BOND MARKETS

Over recent months, economic data releases for the United States – most notably monthly releases on the employment situation – appear to have become one of the key factors behind movements in US and also to some extent euro area bond yields. This box assesses the influence of releases of one specific indicator – US non-farm payroll data (referring to the number of employed people outside the agricultural sector) – on long-term bond yields in both economic areas and discusses the reasons why market participants may have paid so much attention to its recent releases.

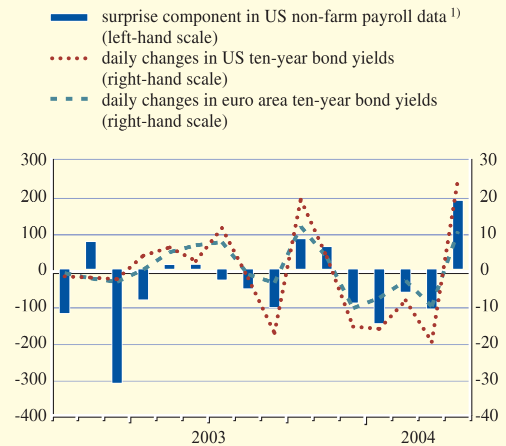
The marked bond market responses to the recent releases on the US employment situation can be related to the fact that the US economic recovery since the 2001 recession has been accompanied by a historically low rate of growth in non-farm payrolls in comparison with previous post-war economic recoveries, raising concerns about a “jobless recovery”. This has been seen to be clearly contributing to the higher than normal degree of labour market slack at this stage of the

economic cycle, whilst having a dampening effect on US inflationary pressures. Against the backdrop of improvements in US domestic demand over the last few months, much attention has been paid by market participants to the possible influence of non-farm payroll data on future movements in short-term interest rates in the United States. As long-term bonds reflect market participants' expectations about future short-term interest rates, long-term bond yields have also reacted to the non-farm payroll data releases.

The non-farm payroll data releases in recent months have displayed employment growth figures deviating considerably from market expectations.[1] The chart shows the surprise component, measured by the difference between outcomes and expectations, in non-farm payroll data releases, together with the daily changes in both US and euro area ten-year government bond yields.

**Chart Surprise component in US non-farm payroll data releases and changes in ten-year US and euro area government bond yields on the release day**

(left-hand scale in thousands, right-hand scale in basis points)




Source: Reuters, Bloomberg.
1) The surprise component is defined as the difference between the outcomes for the monthly change in non-farm payroll data and the figures expected by market participants surveyed by Bloomberg.

Two notable features emerge from the chart:

– For the United States, the surprises in the US non-farm payroll data have in the past tended to be positively correlated with changes in ten-year bond yields. In addition, their impact on bond markets appears to have grown in recent months. Specifically, the non-farm payroll data released in March and April 2004 have had a particularly strong impact on US long-term bond yields, with movements of around 20 basis points on each release day. The relatively strong bond market reactions accompanying these individual data releases can be explained by the relatively large surprise component in the releases which, in the context of the sluggish employment recovery in the United States described above, may have altered expectations regarding the robustness of the US economic recovery. This, in turn, seems to have caused some major revisions in the markets' expectations as regards the future path of US short-term interest rates, thereby contributing to the pronounced movements in bond yields.

– The surprises in non-farm payroll data releases also seem to have had some impact on bond yields in the euro area. It seems that potential changes in market participants' views about the US economic outlook may have also influenced to some extent market perceptions of the outlook for the euro area economy. However, in general, the impact of these data releases on euro area bond yields has been more muted than that on US bond yields.

1 In practice, financial asset prices should reflect all relevant available information which market participants use in forming their expectations about the fundamental factors driving the price of the corresponding asset. Therefore, data releases can be expected to trigger changes in asset prices notably when they deviate from what was expected by market participants.