

Economic Analysis

# Job Growth Decelerates Significantly in August

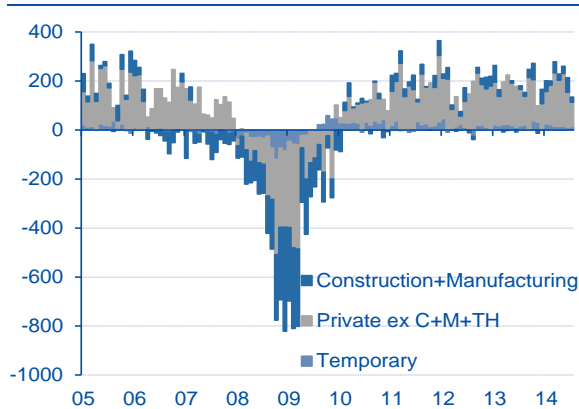
Kim Fraser Chase

- **Nonfarm payrolls increased only 142K in August following a revised 212K gain in July**
- **The unemployment rate declined to 6.1% on account of another fall in participation**
- **Our baseline for 2014 assumes 1.8% job growth and an average 6.3% unemployment rate**

The August employment report surprised to the downside, with nonfarm payrolls up a disappointing 142K for the month. This marked an extreme slowdown from the first half of 2014, where payroll growth remained above 200K, and it is the slowest monthly job growth since December. Data in August have been subject to significant revision throughout the past few years, so it is possible that we will see upwardly revised estimates released in subsequent reports. However, it is still hard to ignore the sting from this initial data. Private payrolls increased only 134K, with government sector hiring up 8K for the month. The underlying details were somewhat discouraging, particularly the lack of manufacturing jobs added, but we did see a 20K increase in construction payrolls. Despite this deceleration in employment growth, the unemployment rate dropped back down to 6.1% in August. It appears that we are back to the usual trend of artificial declines in the unemployment rate, influenced by a shrinking labor force rather than actual hiring activity. In August, the participation rate declined to 62.8% as the number of those not in the labor force increased 268K.

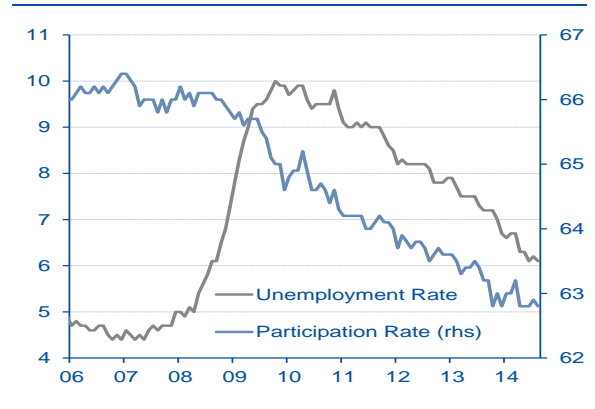
Although this report is discouraging after such a strong 1H14, we are taking the data with a grain of salt as we wait for revisions to be released next month. The data do not impact our baseline scenario for the labor market, and we maintain our expectations for 1.8% annual growth in employment, with the unemployment average hitting 6.3% for the year. Similarly, August's report does not change our expectations for the Fed's monetary policy timeline. This deceleration in job growth is not enough to force a slowdown in the tapering process, and if anything, the data gives more power to the FOMC doves in holding off the first federal funds rate hike until the middle of next year. Thus, we continue to expect an end to QE3 in 4Q14 and the first rate hike in mid-2015.

Chart 1  
**Private Sector Payrolls (Monthly Change in K)**



Source: Bureau of Labor Statistics & BBVA Research

Chart 2  
**Unemployment and Participation Rates (%)**



Source: Bureau of Labor Statistics & BBVA Research

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