

Economic Analysis

Nonfarm Payrolls Post Another Strong Gain in December, Unemployment Rate Falls to 5.6%

Kim Fraser Chase

- **Total nonfarm payrolls increased 252K following a massive 353K spike in November**
- **The unemployment rate dropped to 5.6% alongside another decline in participation**
- **Pending upward revisions to our 2015 employment outlook**

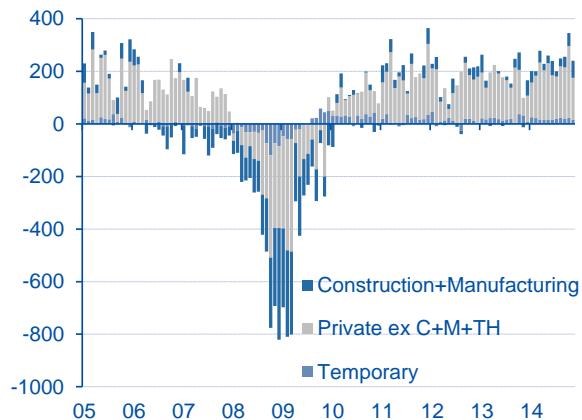
Employment growth continues to surpass expectations, with December's report closing out 2014 as the strongest year of the labor market recovery thus far. Nonfarm payrolls increased 252K following an upwardly revised 353K gain in November (from the initial 321K estimate). The private sector added 240K jobs while the government contributed another 12K for the month. Leading the gains were professional and business services (52K), education and health services (48K), and leisure and hospitality (36K). Construction payrolls have shown significant improvement throughout the past few months, up 48K in December and marking the sixth straight month for double-digit gains. The manufacturing sector also posted a relatively healthy gain of 17K following a 29K increase in November. Hiring in these two sectors had been lagging for quite some time, but the recent uptick hints at a brighter outlook for activity in 2015.

The strong +200K job growth seen since February has certainly helped push down the unemployment rate, which ended the year at 5.6%. However, we have also seen simultaneous declines in labor force participation, with the rate falling to 62.7% in December. According to the CPS labor force status flows, the number of those employed who dropped out of the labor force declined more than 8.0% in December, while the number those employed who became unemployed declined 10.7%. This hints at a healthy shift in demographic trends, especially considering the fact that long-term unemployment has declined throughout the past five months.

Another interesting aspect of December's employment report was the 0.2% decline in average hourly earnings, the largest monthly decline since the crisis and completely offsetting November's gain. Although we will likely see a positive shift in real hourly earnings, the decline in nominal earnings supports our expectations for subdued wage growth throughout the coming year.

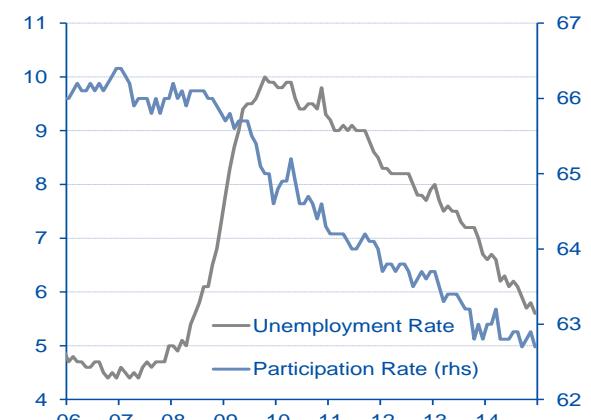
Labor market data has consistently been stronger-than-expected throughout 2014, with more consistent payroll gains and a faster-than-expected decline in the unemployment rate. As such, we are revising our forecasts for the coming years to reflect a more optimistic outlook for domestic activity. Most notably, the unemployment rate could drop below the 5.0% threshold by the end of 2015 or early 2016. Our previous forecasts had been hanging onto the idea that the participation rate would gradually rise as people came back into the labor force, though it appears that it may not increase as much as we had initially expected. Therefore, we will continue to see declines in the unemployment rate partially influenced by low participation but also driven by continued strength in nonfarm payroll growth.

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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