

## Economic Analysis

# Payrolls up 257K in January Alongside Strong Upward Revisions for 2014

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- **Net revisions to the establishment survey amounted to 1.6 million additional jobs for 2014**
- **The unemployment rate rose to 5.7% in January with the participation rate up to 62.9%**
- **Job growth expected to accelerate to 2.1%, with the unemployment rate at 5.3% for 2015**

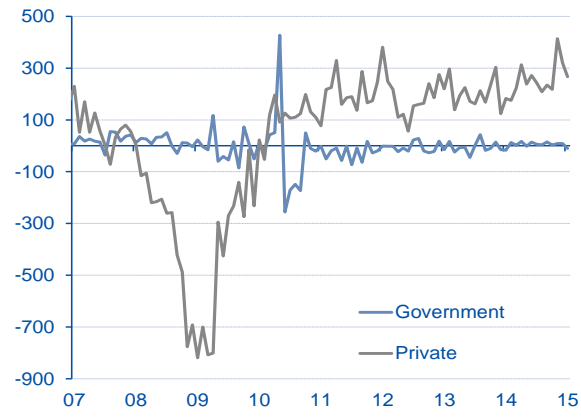
January's employment report reflected stronger-than-expected job growth for the month alongside significant upward revisions for much of 2014. Nonfarm payrolls increased 257K in January, with private payrolls up 267K and government jobs down 10K. The annual revisions were a standout in the report, particularly for 2014 which saw a net change of 1.6 million jobs for the year. November and December were revised upwards to 423K and 329K, respectively, for a combined adjustment of 413K. In total, annual revisions amounted to an increase of nearly 1.86 million jobs between 2008 and 2014.

Aside from the increase in payrolls, the establishment survey also highlighted a significant jump in wages for January. Average hourly earnings for private industries increased 0.5% following a 0.2% decline in December. This is the strongest monthly increase for wages since November 2008 and is an encouraging factor when it comes to further labor market improvement in 2015. However, we are hesitant to read too much into this report as it could primarily be a reflection of minimum wage increases in many states to start off the New Year. Another few months of steady gains will make us think twice about how strong wage growth could be in 2015.

The household survey for January noted a minor increase in the unemployment rate from 5.6% to 5.7% for the month. Despite the strong gain for household employment (up 759K), we also saw a 291K increase in the number of unemployed. Consequently, the participation rate rose to 62.9%, bouncing back from December's drop. According to the CPS labor force status flows, approximately 774K of those "not in the labor force" came back into the workforce, with 495K of those becoming employed and the rest remaining unemployed but on the job hunt. The number of discouraged workers and those marginally attached to the labor force declined 7.8% and 1.2%, respectively, for the month.

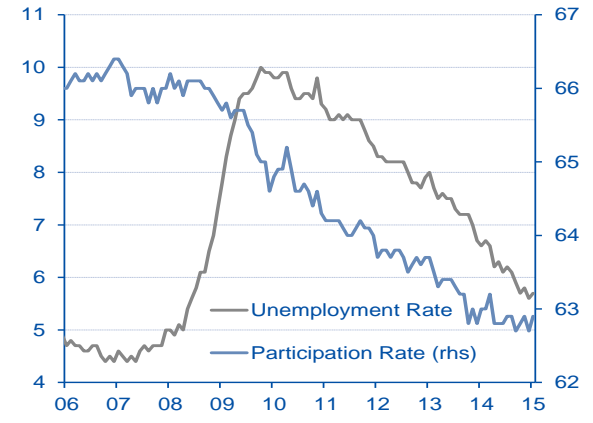
With 2014 officially under our belt, we can focus on the progress to come in 2015. Our revised baseline scenario assumes near 2.1% employment growth (up from 1.9% in 2014) and an average unemployment rate of 5.3% for the year. Although the participation rate did increase in January, we do not expect this trend to strengthen throughout the year. Furthermore, with monthly payroll growth above 200K, we could see the unemployment rate drop below the 5.0% threshold by the end of 2015 or early 2016. When it comes to the Fed, we do not expect that January's report will significantly change their outlook for the first rate hike given that inflation still remains far below their target range.

Chart 1  
**Nonfarm 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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