

Economic Analysis

Payrolls Grow, Participation Rate Up in February

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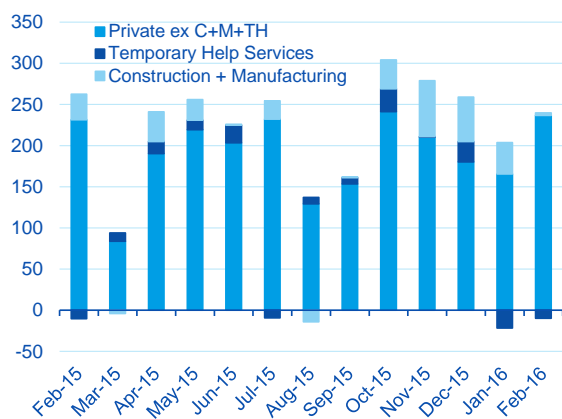
- **Nonfarm payrolls rose more than market consensus, up 242K**
- **Unemployment rate remained constant at 4.9%, while the participation rate rose to 62.9%**
- **Average weekly hours decreased, likely due to an increase in part-time employment in service industries**

February’s payrolls rose more than expected, with nonfarm payrolls up 242K and private payrolls up 230K. The report confirmed continuing expansion of the labor market. At 4.9%, the unemployment rate remained unchanged from January, which represented an eight-year low, while the participation rate rose to 62.9%, meaning that more people entered the workforce. Adding to the positive news, these strong numbers were accompanied by upward revisions for nonfarm payrolls for the previous two months. However, wage growth turned negative in February with a small 0.1% MoM decrease, albeit following a large 0.5% increase in January. Despite the slight drop in February, hourly earnings grew 2.2% YoY, consistent with the average of the last twelve months. Meanwhile, the average workweek decreased from 34.6 to 34.3 hours. This coincides with the rise in part-time employment of 1.6% YoY – the first increase in nine months – registered in the Household Survey, another survey conducted by the Bureau of Labor Statistics.

Manufacturing employment declined after solid gains were made in January, with payrolls falling 16K. Construction payrolls remained solid in February with a 19K increase, after a similar rise in January. Mining employment declined 18K, the highest monthly loss since May 2015, continuing to fall for the 17th month in a row, in line with the fall in oil prices, which started in mid-2014.

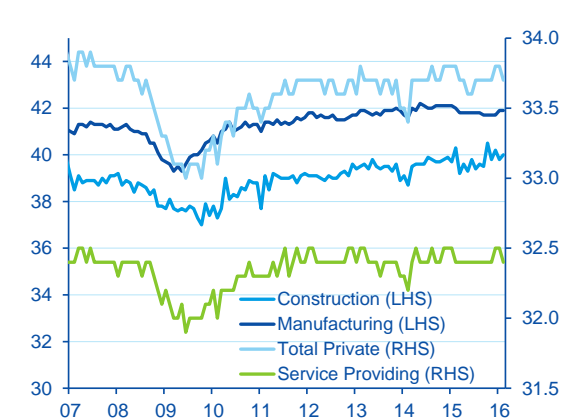
The service sector was responsible for almost all of January’s private payroll gains, with especially strong showings in healthcare and social assistance, which added 57.4K jobs, extending a period of strengthening gains stretching more than two years. Retail trade added 54.9K, following a strong gain the month before, while leisure and hospitality added 48K, the highest in five months.

Chart 1
Nonfarm Payrolls (Monthly Change in K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Average Weekly Hours, Private Ind. (Hours, SA)



Source: Bureau of Labor Statistics & BBVA Research

The increase in employment and labor participation, as well as the YoY increase in hourly earnings, offers support for further interest rate hikes this year. We maintain our expectations for two more rate hikes this year, one perhaps in 1H16. Our baseline scenario assumes 2% employment growth in 2016, down from 2.1% in 2015, with an average unemployment rate of 4.9% for the year. We see labor force participation at the very least stabilizing, and possibly continuing to pick up gradually throughout the year, as more people reenter the workforce and begin looking for jobs once again. February's employment report is consistent with this scenario.

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