U.S. Employment Flash

Labor Market Jumps On Broad Employment Growth

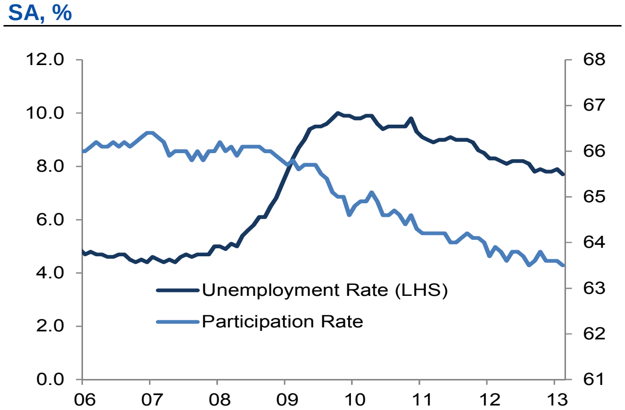
- **Nonfarm payrolls surge 236K in February, with private payrolls up 246K**
- **The unemployment rate fell to 7.7%, hitting a new post-recession low**
- **Falling participation rate and long-term unemployment still a concern**

Employment growth over the past few months has been slightly volatile, yet February's report points toward broad job growth rather than gains in only select industries. While a revision dropped January's increase to only 119K, February's 236K jump in nonfarm payrolls showed significant gains in the goods producing and private service-producing sectors. The majority of the sectors reported in the establishment survey showed significant gains with construction adding 23K, information adding 19K and professional services a substantial 57K. This is on the back of the recovering housing market that continues to put demand for construction workers coupled with a growing optimism for sustainable economic recovery which is prompting companies to reconsider sitting on their cash piles. However, there were sectors where employment fell as demand in their industries tailed off. Wholesale and retail trade employment fell by 9.6K and 5.3K, respectively, as most stores shed some temporary or part-time staff that were injected to manage the holiday influx of demand. The government figure also continued to fall as the sequester prompted layoffs prior to the sequester deadline. Average hourly earnings continued to climb, up 0.2% from the month prior while average the average weekly hours figure rose to 34.5.

The shining star in February's employment report was the drop in the unemployment rate to a post-recession low of 7.7%. Economists had some hesitation in calling for a lower level, consensus was 7.8%, as the recovering economy may have prompted a resurgence in the participation rate, contesting payroll growth and keeping the rate unchanged or even raising it. However, the participation rate fell slightly by 0.1% back to its decade low set last August, pushing down the unemployment rate calculation but reflecting a negative signal for the labor market outlook and potential growth. This disingenuous decline has been one of our major concerns throughout the recovery, along with increases in the number of long-term unemployed that ultimately hint at structural unemployment. In February, the number of individuals unemployed for 27 weeks or more increased 1.9%, the first gain in four months. Among those not in the labor force, the number of discouraged workers increased more than 10% and suggests a possible skill-mismatch for the current job vacancies.

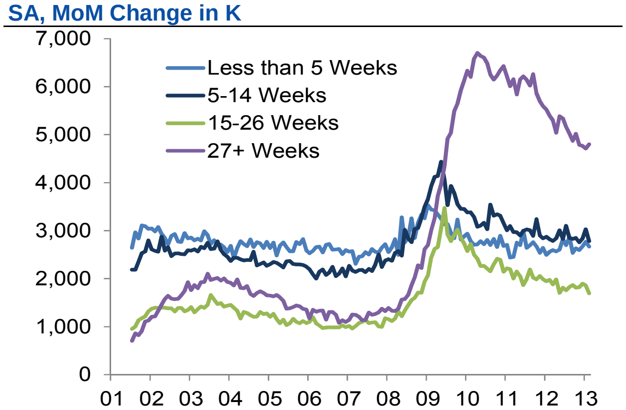
On the whole, February's employment report does point toward better, and even sustainable, employment growth for 1Q13 as long as construction demand persists and companies continue to loosen their grip on hiring. This however, as with many recent economic indicators, comes with a caveat. March's data must continue this trend without making significant revisions to February's figures and continue growth on a broad basis. The Fed is closely monitoring the employment situation and could start to slow asset purchases if we see similar job reports in the next few months. However, we do not expect just one month of significant improvement to change the outlook significantly at this point.

Chart 1
Unemployment and Participation Rates
SA, %



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Civilian Unemployment Duration
SA, MoM Change in K



Source: Bureau of Labor Statistics & BBVA Research

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