

U.S. Employment Flash

Another Surprising Jobs Report, but Lack of Clarity Still Stands

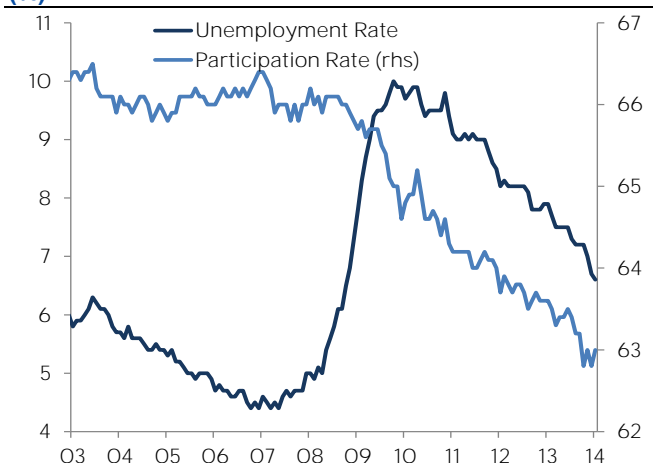
- **Nonfarm payrolls increased 113K in January, following a modest 75K gain in December**
- **The unemployment rate dropped to 6.6% as participation increased to 63.0%**
- **Growing gap between payrolls and household employment becoming significant**

Employment reports have been somewhat surprising in recent months, lacking any clear direction for where the labor market is heading. January's figures are no different, with payrolls surprising to the downside but the unemployment rate dropping for the third consecutive month to 6.6%. Even more surprising, the participation rate ticked back up again to 63.0%, unlike recent trends where falling labor force participation has played a key role in subsequent declines in the unemployment rate. It is also interesting to note that the participation rate increased immediately following the expiration of federal unemployment benefits for nearly one million individuals. These recipients had been required to actively look for work, so they were already counted as part of the labor force. When the benefits expired, we would have expected many of these individuals to give up looking for work and shift into the discouraged or marginally attached groupings, both of which are not counted for participation. Still, this is a definite possibility for the months to come as these long-term unemployed individuals without benefits have a hard time finding a job.

According to the CPS labor force status flows, the number of people moving from "not in the labor force" to "unemployed" increased by 2.5% in January, which could be reflective of the simultaneous decline in discouraged workers during the month. However, the number moving from out of the labor force to employed status increased by 20.6%, the largest such gain in recent history. This seems to be an extreme movement when considering the modest 75K and 113K gains in total nonfarm payrolls for December and January, respectively, yet household employment jumped 143K and 638K in those same two months. Even more jarring is the discrepancy between sectors – nonfarm payrolls for construction increased 48K in January, the biggest jump since early 2007, which is a positive sign when it comes to the housing recovery as a driver of stronger economic growth. However, construction jobs from the household survey were unchanged for the month. There is clearly a growing gap between the nonfarm payroll and household employment reports that makes it difficult to measure the true underlying growth in employment, and it could also be an explanation for why the unemployment rate dropped again. The household survey is usually much more volatile, but given the importance of the unemployment rate in relation to ongoing changes in monetary policy, the report certainly warrants closer attention in the coming year.

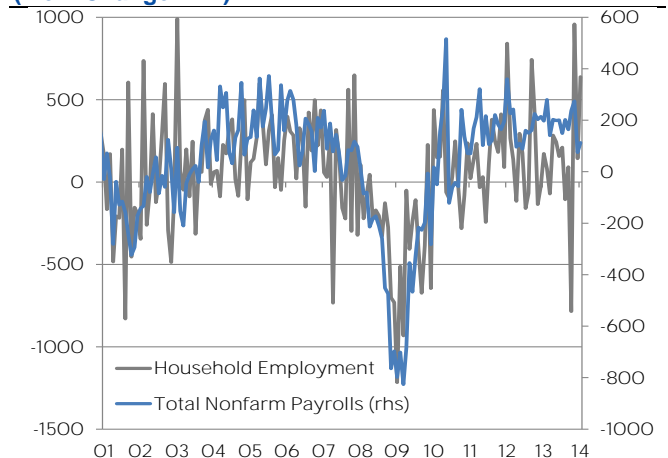
January's report also included historical revisions to nonfarm payrolls. Net revisions were approximately 59M for the entire series dating back to 1939, though much of this was frontloaded within the past decade. Throughout 2013, revisions boosted total payrolls by 5.2M, of which 1.5M occurred during 4Q13. In general, though, revisions had a very minor impact on overall employment trends, as YoY growth rates remain stable throughout the series.

Chart 1
Unemployment and Participation Rates (%)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Nonfarm Payrolls and Household Employment (MoM Change in K)



Source: Bureau of Labor Statistics & BBVA Research

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