

U.S. Employment Flash

Employment Situation Brightens Despite Weather Concerns

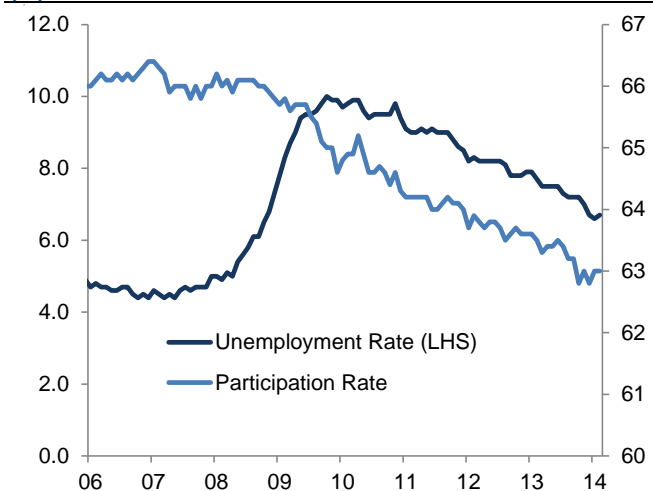
- **Nonfarm payrolls increased 175K in January, but unemployment jumped back to 6.7%**
- **Civilian movement in labor force points to more stable trend in the participation rate**
- **Stronger payroll growth still needed to truly improve the employment situation**

After consecutive months of underwhelming job growth, February's report showed a moderate improvement in the employment situation. The U.S. economy added 175K to total nonfarm payrolls in February, though the unemployment rate ticked up to 6.7%. The bulk of hiring came from the professional business and services sector, which added 79K jobs, of which 24K were temporary positions. Even amid the concerns of extreme weather and a quick slowdown in housing activity, the construction sector added another 15K jobs in February, after a healthy 50K boost in January. Although the growth in employment was still sub-par, the increase was certainly welcoming and was mostly on track with our expectations for the month.

Looking the underlying details of the labor force, the participation rate held steady at 63.0% in February after an unexpected uptick following the expiration of unemployment benefits in January. The number of discouraged workers (who are not included in the labor force) dropped 9.8% MoM in February, and the figure has recently begun trending downward in the wake of increased confidence in recent months. With regards to labor status flows, the number of civilians who were previously not in the labor force to becoming employed declined on a monthly basis but the figure was still up 3.9% YoY. Meanwhile, the number of civilians who were not in the labor force and shifted to becoming unemployed also declined on a monthly basis. The fact that the people who are moving into the labor force are jumping straight into employment means that job growth will need to accelerate more quickly in order to bring down the unemployment rate. The downward movement in the labor force had been pushing down the unemployment rate despite dismal nonfarm payroll additions over the last several months, but it is possible that the trend is reversing and that the unemployment rate will decline at a slower pace throughout the coming months.

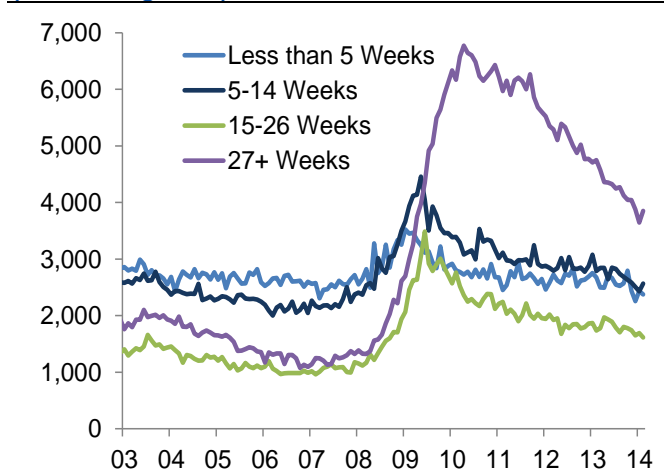
While the jobs report for February was much brighter than the previous two months, growth will need to be stronger in order to improve the employment picture meaningfully. As has been the story for the past month, the employment figures may be unclear due to extreme weather conditions and other seasonal factors, but we see this distortion as insignificant overall and do not believe it should affect hiring. Additionally, the uptick in the unemployment rate likely relieves pressure from the Fed to specify guidelines with regards to forward guidance. Looking forward, we expect nonfarm payrolls to pick up in the coming months, but due to the recent trends in labor flows, we project the unemployment rate to remain relatively unchanged between the 6.5-7.0% range.

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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