

U.S. Employment Flash

Weak Nonfarm Payrolls Despite Drop in Unemployment Rate

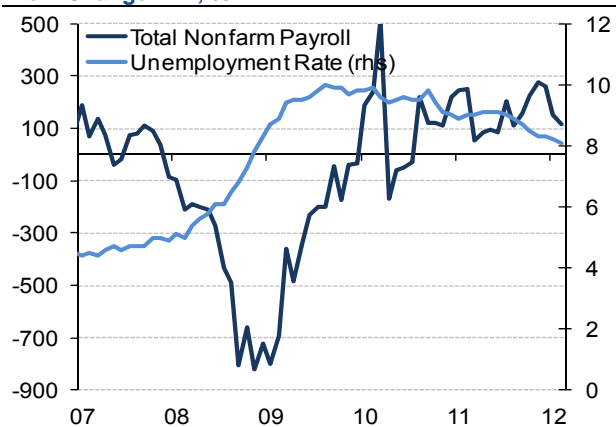
- **Nonfarm payrolls increased 115K in April, with upward revisions to February and March**
- **Private payrolls rose 130K, mostly led by professional and business services**
- **The unemployment rate declined to 8.1%, again reflecting a drop in the labor force**

Labor market data for April mark the second consecutive month of discouraging employment conditions. Nonfarm payrolls increased only 115K in April following upward revisions to both March (120K to 154K) and February (240K to 259K). While the upward revisions are somewhat encouraging, March and April payrolls remain far from the 200K+ gains seen throughout the winter months. The latest trend supports recent arguments that the warmer-than-usual weather may have shifted some of the usual spring gains to the earlier winter months. In fact, the number of heating degree days in December through March deviated significantly from the norm, suggesting that this was one of the warmest winters in nearly six years. Back in the winter of 2006, when the US was experiencing a mild winter, monthly nonfarm payroll growth averaged only 90K in April, May, and June. As a comparison, the average growth for these three months was near 150K throughout the prior ten years. Given the deceleration in employment growth in March and April 2012, we are likely to see a similar impact throughout 2Q12.

Private payrolls increased 130K from a revised 166K in March, with gains led mostly by professional and business services. Despite the reports of positive employment gains in manufacturing, the sector's payrolls increased less than expected, up only 16K to mark the slowest growth since November. The unemployment rate surprisingly declined to 8.1% but once again reflected a decline in the labor force. The participation rate dropped to 63.6%, the lowest since December 1981. In terms of labor force flows, most of the change appears to mirror movement from unemployment out of the labor force, particularly given the modest decline in those unemployed longer than 27 weeks. Still, the long-term unemployed account for more than 40% of all unemployed. While employment growth in the past two months has been a disappointment, we do not expect that the data will cause any immediate action from the Fed. Bernanke and other FOMC members have acknowledged their labor market concerns and will be prepared to act when ultimately necessary.

Chart 1

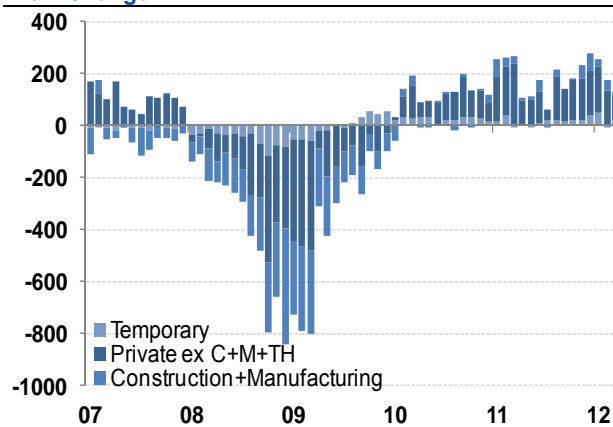
Nonfarm Payrolls and Unemployment Rate MoM Change in K, %



Source: Bureau of Labor Statistics & BBVA Research

Chart 2

Private Nonfarm Payrolls MoM Change in K



Source: Bureau of Labor Statistics & BBVA Research

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7345

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