U.S. Employment Flash

Weak employment data in May pushed 10yr rates below 1.5%

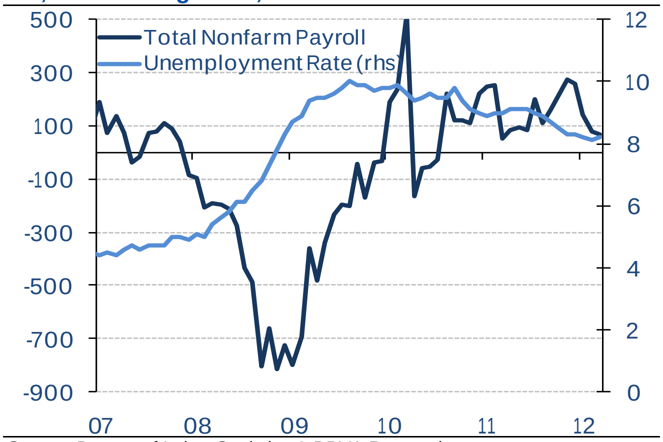
- **Nonfarm payrolls increased 69K in May while the unemployment rate increased to 8.2%**
- **April payrolls were also revised down from 115K to 77K, suggesting very weak employment growth in 2Q12**

Today's BLS report reflects worse-than-expected employment situation and increased uncertainty about the economic recovery in the coming months. Nonfarm payrolls in May increased only by 69K, following downward revisions to both April (from 115K to 77K) and March (from 154K to 143K). In May, employment growth was led by the private sector, adding 82K jobs after adding 87K in April. Most of the private sector hiring was concentrated in service providing industries (+97K) such as transportation and warehousing (+36K) and education and health services (+46K) and wholesale trade (+16K). Construction payrolls continued to fall by 28K in May while employment in professional and business services was almost unchanged. Government sector continued to layoff as the government payrolls declined by 13K, biggest drop since November 2011.

A detailed look to the employment data shows very weak labor market conditions in 2Q12. The unemployment rate increased by 0.1pp to 8.2% due to weak employment growth and increase in the participation rate. The participation rate increased by 0.2pp to 63.8% and offset its decline in the previous month. The number of long-term employment, people unemployed for +27 weeks, increased by 300K. The data also indicates a rise in the number of workers employed part time for economic reasons. These "involuntary part-time workers" likely had difficulty finding a full-time job to match their skill set or were working part time because their hours had been cut back. All these details suggest that structural unemployment is still a concern. Today's report reflects slower job growth in 2Q12 compared to in 1Q12 when the nonfarm payrolls increased by 226K per month. Weak April and May payrolls could be due to the warmer-than-usual weather which may have shifted some of the usual Spring gains to the earlier winter months. Therefore, June and July payroll data will be important to understand the real trend.

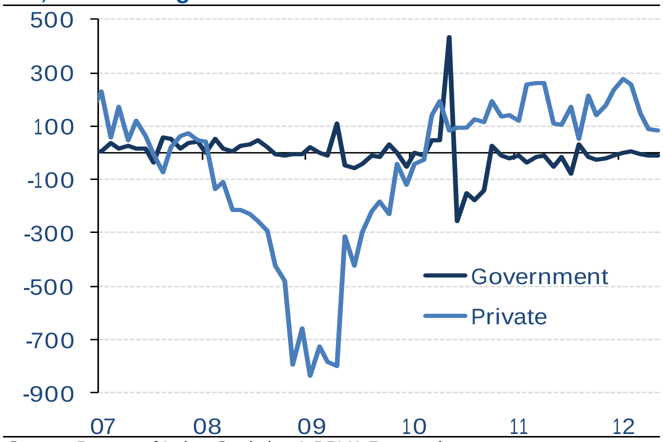
In general, all of today's labor market figures are going in the opposite direction that the Fed would like to see. There are also no signs of inflationary pressures from today's data as well (PCE deflator or average hours). A few more months like this could urge the Fed to act, but with 10yr rates at all-time lows, there will clearly be difficulties in stimulating matters further, unless the Fed gets creative.

Chart 1
Nonfarm Payrolls and Unemployment Rate
SA, MoM Change in K, %



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Nonfarm Payrolls
SA, MoM Change in K



Source: Bureau of Labor Statistics & BBVA Research

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