

U.S. Employment Flash

Payroll Revisions Help Push Down Unemployment Rate

- **Total non-farm payrolls added 114K, with 104K coming from the private sector**
- **Government payrolls increased by 10k, increasing for the third time this year**
- **The unemployment rate fell to 7.8%, levels unseen since 2009**

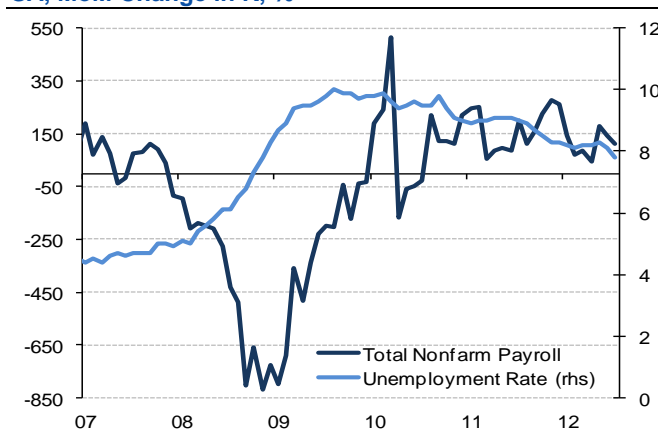
Employment figures released for September show surprisingly positive movements from the economy in both the private and public sector. Total nonfarm payrolls increased 114K in September following upward revisions in July (from 141K to 181K) and August (from 96K to 142K). Private payrolls increased 104K, lead mostly by gains in the healthcare sector. Manufacturing payrolls actually declined for the second consecutive month, down 16K in September. However, recent manufacturing indicators have suggested a slight turnaround in the sector's activity, so we expect that hiring should rebound in the coming months. Surprisingly, government payrolls rose by 10K following upward revisions to the previous two months. This is particularly interesting given the austerity measures and pay freezing concerns that were on the nation's mind only months ago and certainly fresh as the elections draw nearer. Overall, average payroll growth in 3Q12 was 146K, more than double the average in 2Q12 but lower than the strong job growth seen in the beginning of the year.

Surprisingly, these revisions to payroll growth were enough to push down the unemployment rate in September, from 8.1% in August to a post-recession low of 7.8%. Understandably, we would be apt to consider how the participation rate also fared as a fall in the labor force has been an explanatory factor for the lower unemployment data in recent months. However, the participation rate actually increased slightly to 63.6%: more people entering or re-entering the work force, coupled with the lower unemployment rate, highlights some positive signs for the US employment outlook. Whether or not these levels will require some revision is uncertain.

The fall in unemployment is also interesting as we saw a fall in the number of long-term unemployed by 3.7%, a productive movement considering that the majority of those looking for work had been on the hunt for 27 weeks or more. The other significant movement was the increase in the number of people employed part-time for economic reasons, which climbed at its quickest pace since February 2009, up 7.3%

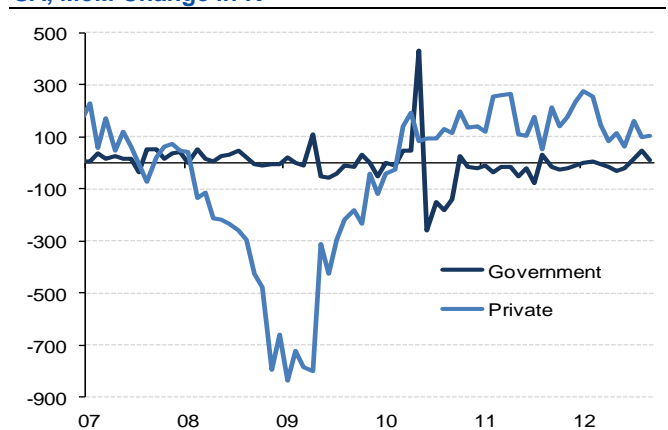
September's report was a surprise to the upside, but conditions appear almost too good to be true. There is the possibility that these numbers will be revised in the coming months given the significant revisions we have seen in this report. Looking forward, we expect that payroll growth will continue at a similar pace throughout the next few quarters. In regards to the unemployment rate, our forecast for 8.2% average in 2012 is slightly high and will likely be revised down. However, there is still the possibility that the unemployment rate can increase as people continue to enter or re-enter the labor force, particularly if payroll growth does not improve significantly. This release will also give the Fed something to consider over the coming weeks before their October FOMC meeting and the question in mind would be whether or not we will see tightening sooner than anticipated if these levels are indicative of better months to come.

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



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Private and Government Payrolls
SA, MoM Change in K



Source: Bureau of Labor Statistics & BBVA Research

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