

U.S. Employment Flash

Unemployment Drops to 7.7% with Decline in Labor Force

- **Nonfarm payrolls surpass estimates at 146K while private payrolls add 147K**
- **Although jobless claims show signs, Sandy's impact seems to be less than expected**
- **Participation rate declined 0.2%, hovering near decade lows**

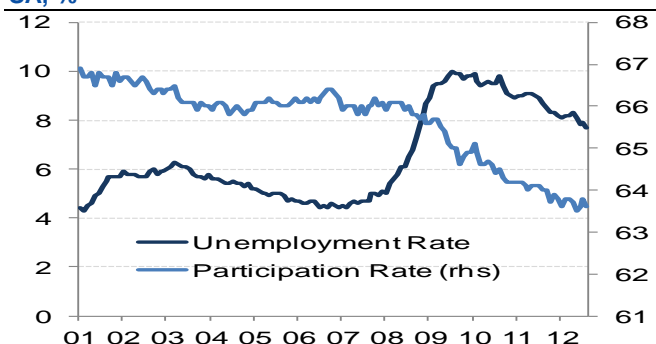
Despite the surprisingly drop in the unemployment rate and the minimal reported impact of Hurricane Sandy, the November employment data should be taken with a grain of salt. Driving down the unemployment rate to 7.7% (the lowest since December 2008) was a simultaneous decline in the labor force, down 350K following two consecutive months of gains. According to data on the labor force status flows, more than 8% of employed workers dropped out of the labor force, while slightly less dropped out from unemployed status. This is likely a result of discouraged and long-term unemployed individuals leaving the workforce given that the number of those unemployed for 27 weeks and over declined more than 4% for the month. Similarly, the participation rate declined from 63.8% in October to 63.6% in November, while the employment-to-population ratio fell to 58.7%.

Nonfarm payroll growth was relatively strong for November, beating consensus expectations for a modest 80K increase on pessimistic expectations for Sandy's impact. Overall payrolls increased 146K for the month, with private hiring up 147K. However, the figures for the past two months were also revised down fervently by 49K which makes the additions for November a little less robust than they seem. The private sector is in line with the season as retail shows the largest increase in jobs, adding 52.6K while professional and business services added 43K. On the negative side, goods-producing sectors are following the growing concern from firms on the fiscal situation of 2013 which will have significant impacts on their hiring and purchasing abilities depending on the outcome. Construction and non-durable goods employment fell by -20K and -18K, respectively, while manufacturing dropped by -7K, signaling the aforementioned fear from producers. In general, the BLS reported little impact from the storm given the overlap between months, but the household survey did note a significant jump in the number of people "unable to work due to weather."

Those who are employed saw their average workweek remain the same as in October but wage inflation rose slightly, up 0.2% after no change in the previous month. This increase is not enough however, to support sustainable job growth in the coming months and with the fiscal cliff only weeks away, it is likely December and early 2013 will see mixed reports across the board in terms of employment. The volatile changes in the labor force population also imply underlying weakness in employment sustainability.

Chart 1

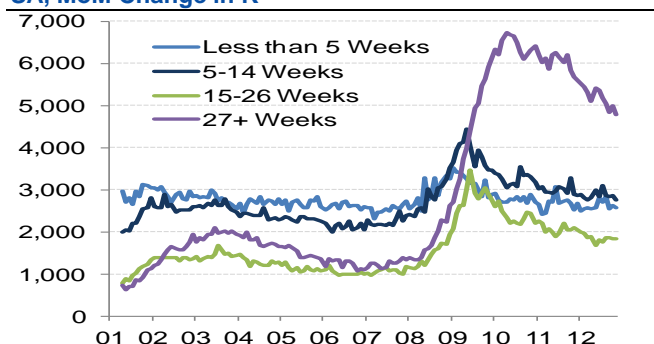
Unemployment and Participation Rates SA, %



Source: Bureau of Labor Statistics & BBVA Research

Chart 2

Civilian Unemployment Duration SA, MoM Change in K



Source: Bureau of Labor Statistics & BBVA Research

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