

U.S. Employment Flash

Unemployment Rate Rises as Labor Market Grows in May

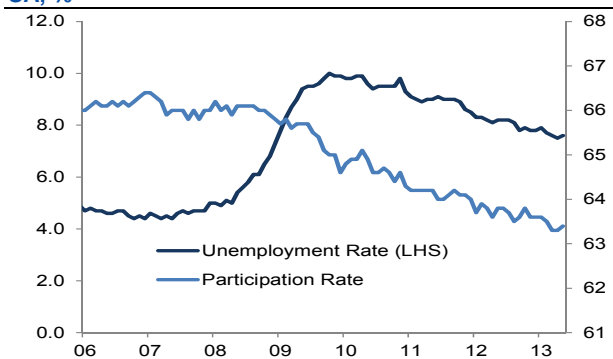
- Nonfarm payrolls grew 175K in May, with private payrolls up 178K
- The unemployment rate rose slightly to 7.6% as participation edged up slightly
- Manufacturing employment down for the third straight month

The employment report for May exceeded expectations in many ways, with payrolls stronger than expected and more people entering back into the labor force. Nonfarm payrolls increased 175K following a downward revision to April's figures, from 165K to 149K. Nevertheless, with private payrolls in May up 178K, there can be no doubt that this jobs report was better than expected. Within the goods producing component, the notion that 2Q13 would bring slower momentum in terms of growth persists. The component as a whole shed 1K jobs after displacing 15K the month before. This was focused primarily in the manufacturing sector which fell for the third consecutive month, down 8K in May as ISM and durable goods reports continue to point toward a deceleration in the sector. On the positive side, construction shrugged off its decline from the month before and added 7K to its ranks as the housing market continues to demand labor. Turning to the services sector, the driver of labor growth since the end of the recession, the situation seems to be the most optimistic. Retail and wholesale trade added a combined 35K jobs as summer retail demand finally comes into play after a slow end to the winter months across the nation. Financial activities managed a slight increase while professional and business services continued to dominate the rise in job demand, adding 57K. With the professional services component, temporary help rose 25.6K which has begun to rise as graduates enter into internships and temp employment throughout the summer months. Education and healthcare increased 26K, its slowest increase since January as healthcare continues to grapple with the pending implementation of the new healthcare bill. Coming second in terms of jobs added by component, leisure and hospitality surged 43K in May which can be partially explained by the pent up demand from winter months as summer starts. Despite calls for the sequester to take a heavy toll on employment this month, the government sector shed only 3K jobs which is its smallest decline since February.

Despite the stronger than expected payroll growth, the unemployment rate jumped back up to 7.6%. The participation rate nudged up a tenth of a percent to 63.4% and the labor force gained 420K new workers. This edges the labor force back to its all-time high after concerns that people were leaving at a discouraging rate as those closer to the retirement age were choosing to leave early. Although this is only one month of data, any reversal in the trend toward a smaller labor force is a positive sign as optimism in the ability to find a job brings people back into the labor force.

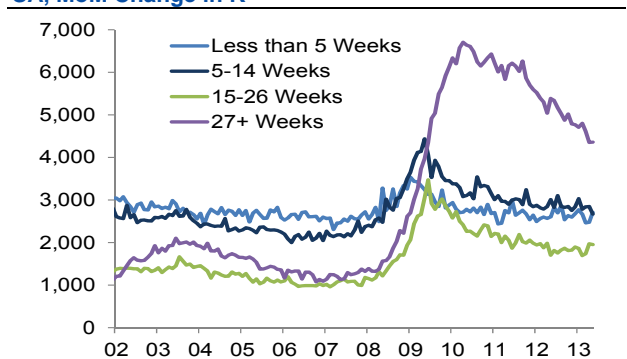
Overall, May's report was mixed in terms of how we view the employment situation in 2Q13. Although payrolls rose more than anticipated, the revision to April brings the quarter's average almost back to its prior level of closer to the 162K level. Nevertheless, given the strong increase in service sector employment and the rise in the labor force, there are signs that the situation is improving. For the coming months, we expect the service sector to continue growing at a moderate pace while the goods producing component of nonfarm payrolls lags until 2H13. As with other slow data for 2Q13, we do not expect this to encourage a quick turnaround in the Fed's decision to maintain the current pace of QE3.

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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