

U.S. Employment Flash

Unemployment Rate Drops to 7%, Spurs Implications for Fed

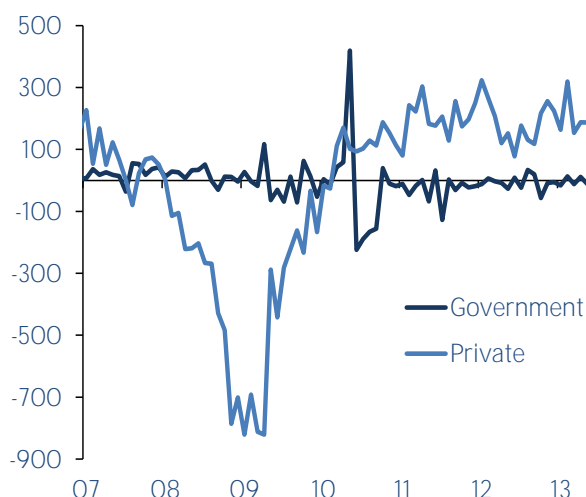
- **Nonfarm payrolls increased 203K in November following a 200K rise in October**
- **The unemployment rate dropped from 7.3% to 7.0%, even with an increasing labor force**
- **Tapering talk will be heightened in December, though it is still not a done deal**

The employment report for November sends a more optimistic signal on the labor market than what was originally thought. Nonfarm payrolls increased 203K on the back of a 196K gain in private payrolls and a 7K increase on the government side. This puts us at the third time in only four months that payrolls have been at or above 200K. Positive surprises were seen in manufacturing (+27K) and construction (+17K), where hiring in both sectors reflects stronger activity in the real economy. The biggest news came from the household survey, with the unemployment rate dropping from 7.3% to 7.0%. After a big drop in the labor force in October, the participation rate actually increased in November to 63.0% -- still lower than the rate in September, but a positive signal nonetheless. According to the CPS labor force status flows, this movement did not reflect a shift to employment but rather a nearly 5.0% increase from those not in the labor force to unemployed. Still, this is an encouraging sign that individuals are more optimistic about job availability and are starting to look for employment once again. In fact, the number of discouraged workers declined in November for the fifth straight month.

This report could have huge implications for monetary policy in the near future. Back in the summer, Bernanke noted that the end of QE3 would occur sometime in mid-2014, when the unemployment rate was around 7.0%. While the FOMC has tried to move away from that guideline, it is still in the back of all our minds. Now that we've hit that mark, everyone will be looking to the FOMC meeting on December 18th for some sense of direction. Employment growth has clearly improved since September, even with the government shutdown in October, and unemployment has continued on a downward trend. The probability of a tapering announcement before year-end has certainly increased, yet the threat of another fiscal debacle in January still lingers and could push the decision to 1Q14.

Chart 1

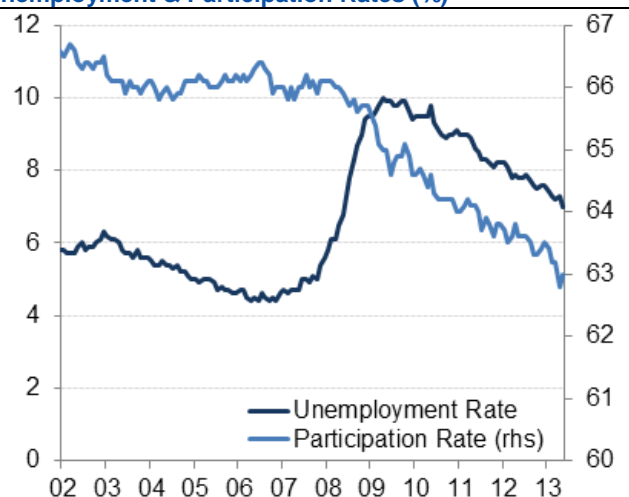
Private Sector & Government Payrolls (MoM Change K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2

Unemployment & Participation Rates (%)



Source: Bureau of Labor Statistics & BBVA Research

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