

U.S. Employment Flash

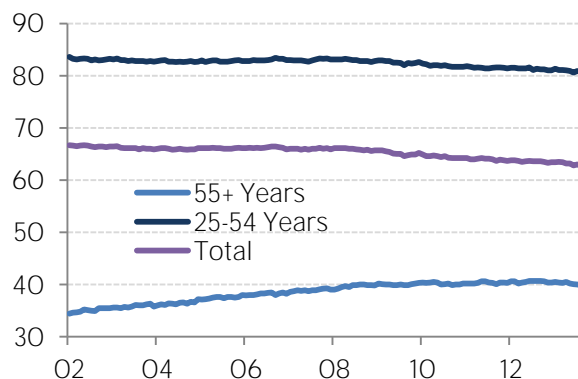
U.S. Adds 74k Jobs, Yet Unemployment Rate Drops to 6.7%

- December figure marks smallest increase in jobs added since January 2011
- The unemployment rate fell to 6.7% from 7.0% despite underwhelming job creation
- Drop appears to be largely attributed to decline in labor force participants

The U.S. added only 74k nonfarm payroll jobs in December, marking the lowest MoM increase in nearly three years as the job market finished the year on an unexpectedly weak note. The unemployment rate fell from 7.0% in November to 6.7%, but this figure appears to be misleading. The decline is largely explained by people leaving the workforce, a discouraging sign in the job market amidst a wave of mostly positive economic news for the month. The number of workers currently looking for work or working fell to 62.8% in December, a jump back to the 35-year-low October figure. Furthermore, the number of discouraged workers increased by an unexpected 155k after experiencing declines for five consecutive months. Job growth appeared to be boosted largely by the retail sector, which saw roughly 55k workers added. The professional and business services sector also witnessed an increase in employment, but growth in the sector appears to be largely due to temporary services. Manufacturing saw a slight increase in jobs, but the construction sector experienced a loss of 16k, potentially signaling a slowdown in the housing market. The government sector slashed 13k jobs in December after adding 15k the month prior, while most other sectors remained relatively flat.

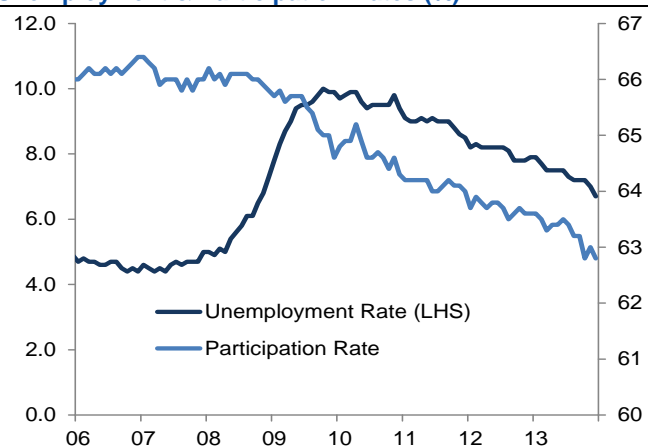
The December employment report sends mixed signals, as the job growth was surprisingly low yet the unemployment rate significantly fell to its lowest level since November 2008. Amid a growing sense of optimism due to strong reports in housing, manufacturing, and trade, the loss of jobs in construction further questions the sustainability of the labor market improvement. Ahead of the FOMC January meeting, the blurry picture of the employment report increases pressure on the Fed to strengthen their stance on forward guidance as December unemployment is only 0.2% away from their policy rate threshold of 6.5%. Although certainly disappointing, it is important to remember that the monthly payroll can be subject to significant revisions and has been considerably volatile over recent months. Even though job growth was lower than expected in December, we remain optimistic about the economic situation heading into 2014.

Chart 1
Labor Force Participation Rate by Age (%)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Unemployment & Participation Rates (%)



Source: Bureau of Labor Statistics & BBVA Research

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