

U.S. Employment Flash

Employment Growth in Line with Expectations for May

- Nonfarm payrolls increased 217K following a 282K gain in April
- Unemployment and participation rates held steady at 6.3% and 62.8%, respectively
- 2014 forecasts remain unchanged, assuming near 200K monthly payrolls for the year

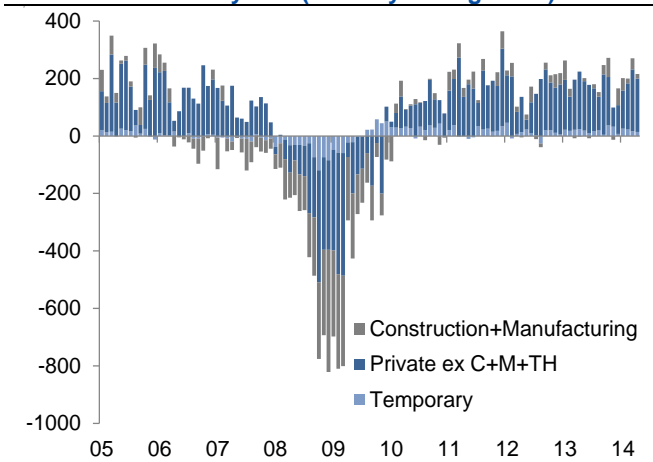
The BLS employment report released for May came with little surprise, falling in line with consensus expectations for the month. Nonfarm payrolls increased 217K following a revised 282K in April, mostly due to hiring in the private sector. Major drivers of the 216K increase in private payrolls for May were education and health services (63K), professional and business services (55K), and leisure and hospitality (39K). The heavily watched manufacturing and construction sectors added a modest 10K and 6K, respectively, to total payrolls for the month. The establishment survey also noted a 0.2% gain in average hourly earnings, which adds to the encouraging labor market outlook for the month even though annual earnings growth remains low.

Data from the household survey were also positive, with both the unemployment and participation rates holding steady at 6.3% and 62.8%, respectively. The number of employed increased 145K, slightly less than the nonfarm payroll increase but more in line compared to the previous few months. In April, household employment actually declined 73K at the same time payrolls increased 282K. Growing discrepancies between the two series could impact the reliability of the data and result in uncertain implications regarding the true underlying trends in the labor market.

Accounting for May's employment report, our forecasts for the year remain unchanged. We expect that payroll growth will continue at a gradual pace, reaching close to 1.7% YoY for 2014. This figure accounts for steady monthly gains in employment hovering close to the 200K mark. At the same time, it is unlikely that we will see such rapid declines in unemployment in the coming months, with the rate expected to remain mostly steady throughout the rest of the year. In fact, we continue to expect that future gains in labor force participation will put upward pressure on the unemployment rate. Therefore, we do not expect the unemployment rate to drop below 6.0% until 2015.

Chart 1

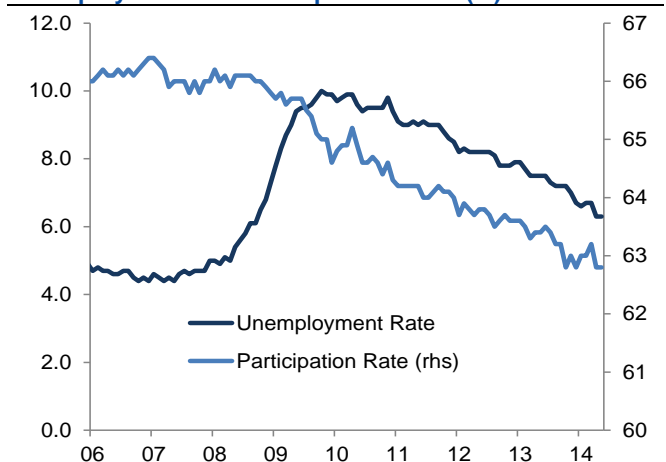
Private Nonfarm Payrolls (Monthly Change in K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2

Unemployment and Participation Rates (%)



Source: Bureau of Labor Statistics & BBVA Research

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