Economic Analysis

Steady Job Growth in July but UR up to 6.2%

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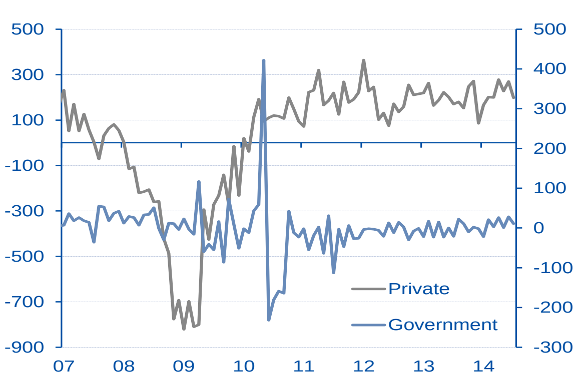
- **Nonfarm payrolls increased 209K, reflecting big jumps in manufacturing and construction**
- **Increase in labor force participation led to a rise in the unemployment rate to 6.2%**

Nonfarm payrolls held above the 200K threshold for the sixth consecutive month (a recovery record), rising 209K in July. Private payrolls increased 198K, a significant deceleration from June's 270K but still reflecting notable improvement in important sectors such as manufacturing and construction (28K and 22K, respectively). Government payrolls increased 11K, marking the sixth straight month of positive job growth for the public sector. Employment in the household survey also increased, but so did unemployment, with the rate ticking back up to 6.2% in July. As we have been expecting, the participation rate increased slightly to 62.9% after holding steady for three straight months. According to the CPS labor force status flows, the number of those moving from out of the labor force to unemployed increased 10.6% for the month. Labor force participation increased primarily for the younger cohorts, with the rate rising for 16 to 17 year olds and 20 to 24 year olds as high school and college graduates entered into the workforce. We do expect that participation in the older age groups will increase slightly in the near future as discouraged workers feel more confident about starting up their job search again. However, the situation remains vulnerable to shaky business confidence and income prospects. Overall, we expect that the unemployment rate will average around 6.3% in 2014, dropping below 6.0% in early 2015.

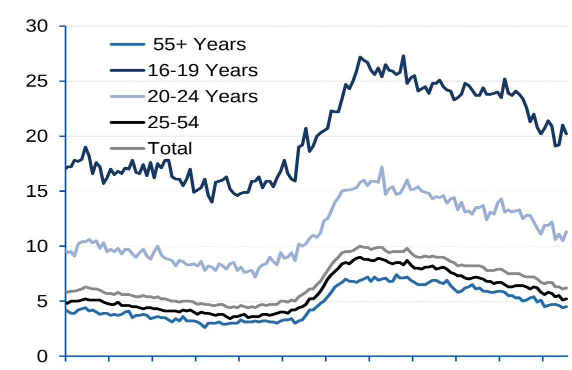
Despite the latest reports of rising inflation, particularly when it comes to wage pressures (the employment cost index increased 0.7% in 2Q14), average hourly earnings for all employees on private nonfarm payrolls were unchanged in July. This helps to support the doves at the Fed while at the same time continued strength in employment growth adds pressure for the FOMC to increase rates sooner than mid-2015. However, even with the latest bout of positive economic data, the FOMC remains cautious of painting too bright of an economic picture, stating that "significant underutilization of labor resources" still lingers. Thus, we don't expect that this report will change the Fed's path for QE3 tapering or the first rate hike.

Chart 1
Private Sector and Government Payrolls (Monthly Change in K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Unemployment Rate (%)



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