Economic Analysis

Unemployment Rate Falls to 5.5% in February as Job Growth Holds Strong

Kim Fraser Chase

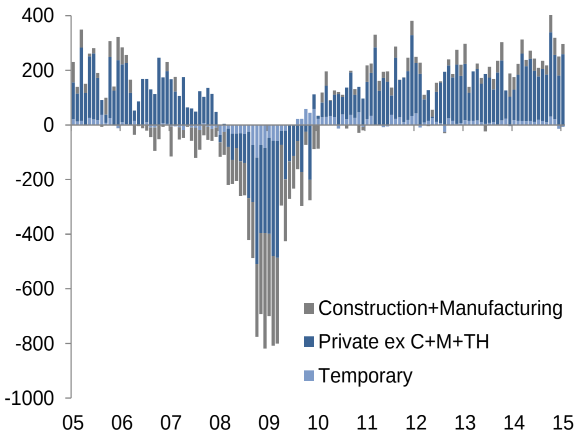
- **Nonfarm payrolls increased 295K in February, with 288K private and 7K government**
- **The unemployment rate dropped to 5.5% as the participation rate fell to 62.8%**
- **Strong job growth not expected to pull forward the Fed's first rate hike before mid-2015**

Employment growth continued its +200K run in February for the twelfth consecutive month. Nonfarm payrolls increased a massive 295K following a revised 239K in January. Expectations pointed to healthy growth for the month but nowhere near the actual figure, with adjustments expected to come from beginning-of-the-year volatility and weather-related disruptions. Some sectors did reflect the expected slowdown, with mining jobs down 9.3K for the month and manufacturing payrolls slowing to only 8K following four consecutive months of double-digits gains. Construction jobs also increased at a slower pace in February but remained healthy considering the winter's expected impact on housing activity. Total private payrolls increased 288K while the government side added another 7K for the month.

Not surprisingly, the ongoing strength in employment growth helped push down the unemployment rate to 5.5% in February, with an added push from a minor decline in the participation rate to 62.8%. According to the household survey, the number of those not in the labor force increased 354K, exactly offsetting those who had come back into the labor force in January. Long-term unemployment declined in February, with only the number of those unemployed for less than 5 weeks on the rise. However, the CPS labor force status flows suggest an increase in the number of individuals shifting from unemployed to not in the labor force, so the decline in long-term unemployed may directly correspond to the month's increase in discouraged workers.

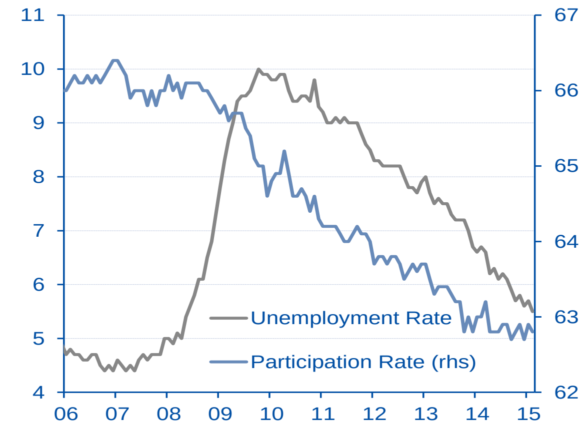
Despite some obvious imperfections remaining in the labor market, we are optimistic about where we are headed in 2015. Improvement in the labor market throughout the past year has been a welcome surprise, with payroll growth accelerating to 1.9% YoY in 2014, the fastest pace since 2000. For 2015, we expect that growth will accelerate above 2.0%, with the unemployment rate likely to reach the 5.0% mark by the end of the year. This ongoing strength in the labor market has made it harder and harder for the Fed to hold off on the first interest rate hike, especially when we consider that they were still holding on to the 6.5% target rate at this time last year. However, we expect that low inflation will continue to offset lower unemployment for at least the next few months, and we maintain our expectations for the first rate hike in mid-2015.

Chart 1
Private Nonfarm Payrolls (Monthly Change in K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Unemployment and Participation Rates (%)



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