Economic Analysis

Employment Situation Back on Track in April

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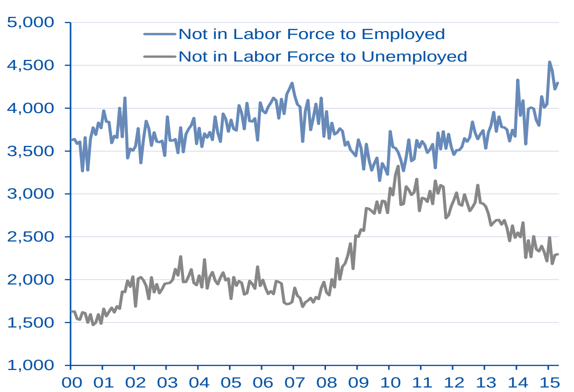
- **Nonfarm payrolls increased a healthy 223K following a depressing 85K in March**
- **The unemployment rate dropped to 5.4% as the participation rate increased to 62.8%**
- **Below-average wage growth will continue to hold off the Fed's rate hike until September**

Worries of a downturn in employment growth eased significantly in April as nonfarm payrolls jumped back up above 200K. March's discouraging report was revised even lower (from 126K to 85K), but April's 223K helps to leave that disappointment where it belongs in a weak 1Q15. Furthermore, this acceleration in job growth helped to push down the unemployment rate to 5.4%, with the participation rate up slightly to 62.8%. The household survey noted a third consecutive month of declines in the number of unemployed individuals. According to the CPS labor force status flows, there were fewer employed and unemployed workers leaving the labor force in April. At the same time, some of those not in the labor force found jobs and/or starting looking for work again.

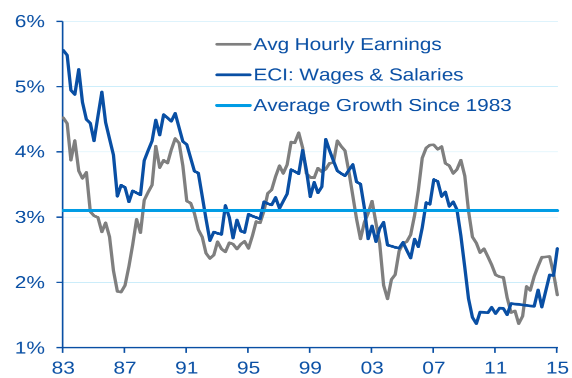
Another (mostly) positive aspect of April's employment report was the modest increase in average hourly earnings (up 0.1%), marking the fourth consecutive monthly gain. Wages were up across most industries except for mining and logging and transportation and warehousing, both of which have been hit directly and indirectly by the drastic fall in oil prices. On a YoY basis, average hourly earnings for the private sector are holding steady near 2.0%, still well-below the historical average (since 1983) at just above 3.0%. This is also the case for other wage indicators, including the Employment Cost Index (ECI). Despite the latest report noting another strong increase for the ECI (up 0.7% in 1Q15), wages and salaries remain below average. Although the ECI doesn't always grab market attention as much as the monthly employment report, it is definitely on the Fed's list of important indicators to watch. However, the ECI has been inconsistently strong compared to average hourly earnings, so it will be essential to monitor ongoing developments in the coming months as we approach the first rate hike announcement. As expected, the latest employment and wage data have not changed our expectations for a September rate hike.

Chart 1
Flows into the Labor Force (SA, Thousands)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Wage Growth (YoY % Change)



Source: Bureau of Labor Statistics & BBVA Research

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