

Economic Analysis

Strong Job Growth Won't Change Fed Liftoff Plans

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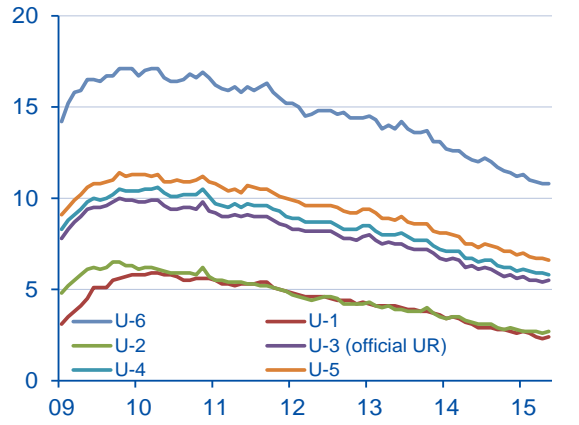
- **Nonfarm payrolls jumped 280K in May, the largest gain since December**
- **A rise in 16-24 year old participation pushed up the unemployment rate to 5.5%**
- **Better-than-expected job growth still not enough to offset weak inflation in Fed's outlook**

The latest data from the Bureau of Labor Statistics suggest that the employment situation in May was much stronger than expected. Nonfarm payrolls increased 280K for the month, well-above consensus expectations for a modest 220K gain, following a 221K increase in April. March payrolls were also revised back up to 119K from the discouraging 85K that was reported last month. Private payrolls were driven largely by gains in education and health services (74K), professional and business services (63K), and leisure and hospitality (57K). Government payrolls added another 18K to total employment growth for May, marking the strongest gain for the public sector since August 2013.

Despite this acceleration in job growth, the unemployment rate ticked back up to 5.5% for the month. According to the household survey, the number of unemployed individuals increased 125K following three consecutive months of declines. The good news is that this shift reflects an increase in labor force participation and a significant decline in both discouraged workers (-25.5%) and those marginally attached to the labor force (-12.0%). In fact, the CPS labor force status flows suggest an increase in the number of those not in the labor force into employment (2.1%) and into unemployment (1.0%). Overall, the participation rate increased for the second straight month to 62.9%, finally getting back to where we were in January. The details indicate a boost in participation from the younger generations, which makes sense given that the end of the school year leaves many high school and college graduates looking to enter the workforce. The rates for 16-19 year olds and 20-24 year olds increased significantly, while participation for those 25+ remained unchanged.

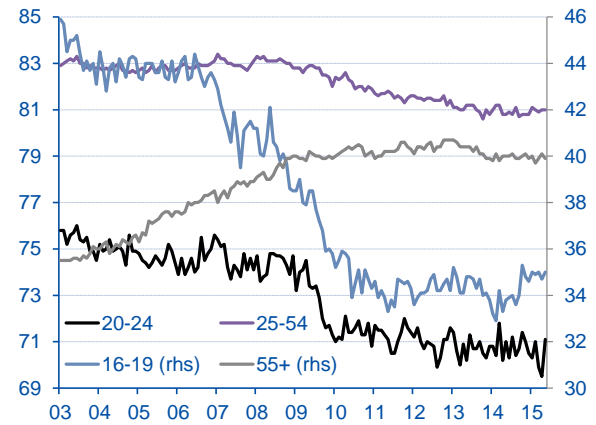
May's employment report puts additional pressure on the Fed to increase rates at least by the end of this year, depending on how their inflation outlook progresses. Although market expectations for the Fed have been volatile, our views have remained unchanged even with the latest swings in employment data. The better-than-expected jump in nonfarm payrolls should not pull forward any Fed action, and we continue to expect the first federal funds rate hike in September.

Chart 1
Alternative Measures of Unemployment (%)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Labor Force Participation Rates (%)



Source: Bureau of Labor Statistics & BBVA Research

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