Economic Analysis

Resilient 4Q Job Growth Despite Subdued Wages

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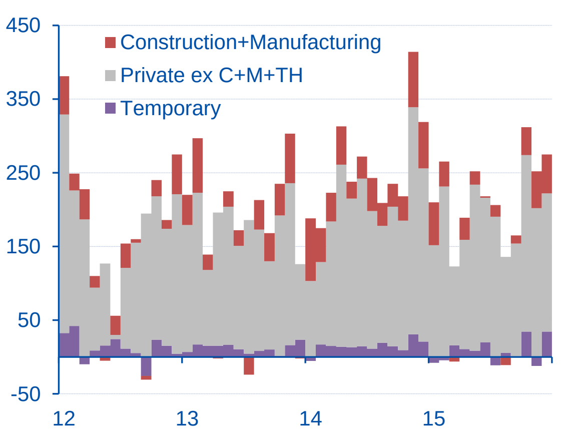
- **Payrolls increased 292K in December while the unemployment rate held at 5.0%**
- **Average hourly earnings held flat, pointing to continued weakness in wages**
- **Renewed confidence in the job market will help slowly lift labor force participation in 2016**

December's job growth closed out a very strong fourth quarter for the labor market. Nonfarm payrolls increased 292K following revised gains of 307K and 252K in October and November, respectively. Average payroll growth for the quarter was 284K, the strongest since 4Q14. This certainly helps to put the Fed's mind at ease in their quest for full employment and in support of December's federal funds rate hike.

Private nonfarm payrolls in December increased 275K, led as usual by professional and business services (73K). Education and health services added 59K while leisure and hospitality added another 29K. Sectors that have been under close watch, such as construction and manufacturing, posted relatively healthy gains of 45K and 8K, respectively. Although hiring in the manufacturing sector has been positive throughout the past few months, it will continue to be limited by the strong USD and ongoing weakness in global demand for U.S. exports.

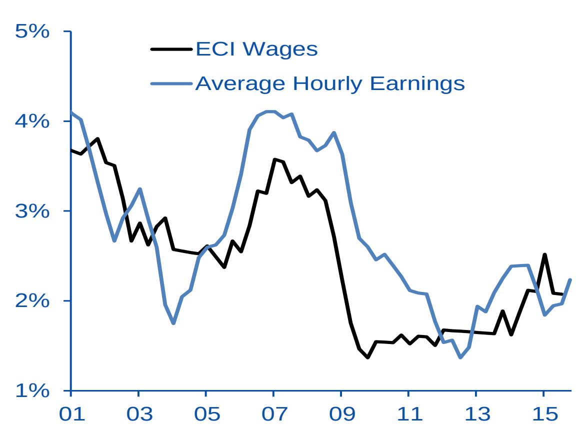
In other labor market news, the unemployment rate held steady at 5.0% for the entire fourth quarter. This is the first three-month stretch since mid-2013 in which the unemployment rate did not change, supporting our expectations for a slightly slower downward trend in 2016 as we near full employment and the natural rate of unemployment. Strong job growth probably would have been enough to push down the unemployment rate for the month had it not been for the increase in labor force participation – another factor that we expect to limit declines in unemployment moving forward. With increasing confidence in the labor market, we expect to finally start seeing some reentrants back into the labor force in the coming year, albeit at a slow pace.

Chart 1
Private Nonfarm Payrolls (Monthly Change, Thousands)



Source: BLS & BBVA Research

Chart 2
Average Hourly Earnings & ECI Wages (YoY % Change)



Source: BLS & BBVA Research

Despite encouraging data elsewhere in the employment report, average hourly earnings highlight the lingering concerns still haunting the labor market. Wage growth in December was flat following two solid months of robust monthly rates. Although earnings did improve compared to 12 months ago, up 2.5% on a YoY basis, the monthly volatility suggests that we will continue to see subdued wage growth in 2016. Furthermore, the current pace remains far below pre-crisis highs. A large pool of unemployed workers, on top of those willing to work that are outside the labor force, does not put much pressure on businesses to increase wages in the near term. Any wage growth we are seeing is likely stemming from more specialized positions rather than from the job market as a whole.

In general, we expect to see continued progress in the labor market throughout the coming year. Job growth will continue to accelerate, pushing the unemployment rate below 5.0%. Labor force flows will likely limit the downward pressure on the unemployment rate as discouraged workers find their way back into the workforce. Most of the focus in 2016 will be on wage growth, not only as a means to confirm a healthy labor market but also as a gauge for inflation that has held stubbornly low throughout the past year and will become increasingly important as the Fed looks toward higher interest rates.