

Economic Analysis

Payrolls Soft but UR at Record-Low in January

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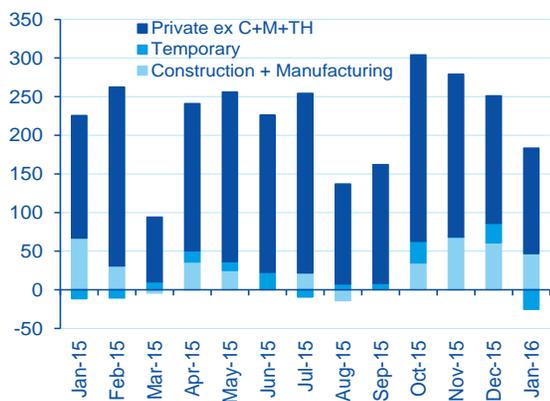
- **Nonfarm payrolls rose less-than-expected, up 151K, with strong gains in manufacturing**
- **The unemployment rate hit an 8-year low of 4.9% as the participation rate rose to 62.7%**
- **2016 job growth expected to decelerate to 2% with the average unemployment rate at 4.9%**

January’s employment report was softer-than-expected, with nonfarm payrolls up 151K and private payrolls up 158K. The remainder of the report, however, demonstrated that the labor market remains firm. The unemployment rate dropped to 4.9% (an eight-year low), while the participation rate rose to 62.7%, meaning that more people are finding jobs and entering the workforce. Wage growth was also strong, with a sharp 0.5% MoM increase, perhaps driven by state, city, and company-level minimum wage increases that have made headlines recently. The average workweek increased slightly to 34.6 hours, indicating that employers may be opting to increase hours rather than hire new personnel.

Despite prolonged weakness in manufacturing, employment in the sector was a strong point in this report, with payrolls jumping 29K—the highest MoM increase since November 2014. Employment in the other good-producing sectors was soft though, with construction payrolls up 18K after heavy gains in 4Q15 resulting from unseasonably warm weather, and mining payrolls down 7K, dropping for the 16th month in a row. The service sector was responsible for most of January’s payroll gains, with especially strong showings in retail trade and leisure and hospitality.

This employment report also includes a special bonus—BLS’s annual revisions that smooth the data for seasonal volatility and adjust for new population estimates. The result of the revisions was relatively minor; however, the YoY change in nonfarm payrolls for 2015 increased 85K to 2.7 million, while the civilian labor force rose by 218K and the count of those not in the labor force was up 47K.

Chart 1
Nonfarm Payrolls (Monthly Change in K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Unemployment and Participation Rates (%)



Source: Bureau of Labor Statistics & BBVA Research

January's relatively weak job growth overshadows an otherwise solid employment report. Strong wage growth offers some support for further rate hikes this year, but inflation remains well below the Fed's target. We maintain our expectations for two more rate hikes this year, one perhaps in 1H16. Our baseline scenario assumes 2% employment growth in 2016, down from 2.1% in 2015, with an average unemployment rate of 4.9% for the year. This plays into the assumption that labor force participation is at the very least stabilizing at low levels, and may even continue picking up gradually throughout the year. Ultimately, this will limit the speed at which the unemployment rate continues to decline in 2016 as more people reenter the workforce and begin looking for jobs once again.

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