

Economic Analysis

Job growth slows but wages intensify in April

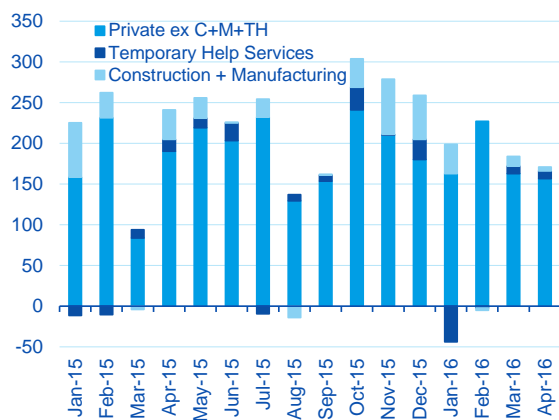
Filip Blazheski

- **Nonfarm payrolls rose 160K, less than consensus expectations of 200K**
- **Unemployment rate remained constant at 5.0%, while the participation rate declined to 62.8%**
- **Average weekly hours and earnings increased, however, resulting in mixed signals for the Fed**

April's payrolls rose less than expected, with nonfarm payrolls up 160K and private payrolls up 171K (Chart 1). The report shows a slowdown in labor market expansion compared to the previous six months. At 5.0%, the unemployment rate remained unchanged from March, when it increased 0.1 percentage points due to increased labor force participation. The labor force participation, which had started increasing after reaching an almost 38-year low in September, fell for the first time in seven months as the workforce shrank by 362K. Thankfully, the somewhat disappointing numbers were not accompanied by significant downward revisions for the previous two months.

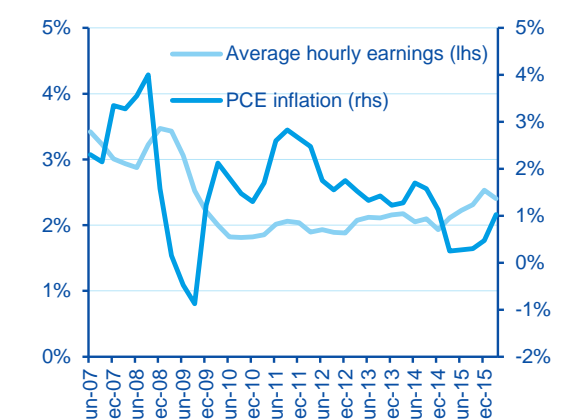
The slowdown in employment growth in April was to some degree a result of a 3K decline in employment in goods-producing industries (reflecting ongoing weaknesses in mining and non-durable goods), 3K in retail trade and 11K in government. The decline in retail employment comes after 15 straight months of gains, while the decline in government employment comes after five straight months of gains. That said, multiple sectors still posted solid gains: transportation and warehousing (8.6K), financial activities (20K, the highest in nine months), professional and business services (65K, the highest in six months), education and health services (54K), and leisure and hospitality (22K).

Chart 1
Nonfarm Private Payrolls (Monthly Change in K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Average hourly earnings, private industries (YoY and YoY 4qma)



Source: Bureau of Labor Statistics & BBVA Research

As a result of the still ongoing labor market tightening, wage growth intensified to 0.3% MoM, following a 0.2% increase in March. Hourly earnings grew 2.5% YoY (Chart 2), higher than the 2.4% average for the last twelve

months. The average workweek increased to 34.5 hours from 34.4, reaching its average level for the last twelve months. The index of aggregate weekly hours increased 0.4% MoM, after decreasing in February and March, and stands 2.1% higher YoY. These trends should be reflected in higher inflation, as long as the gains in employment continue and consumer confidence does not deteriorate.

The slower employment growth and lower labor participation, combined with the low growth figures for the first quarter, will weigh on the Fed when deliberating further interest rate hikes this year, although the growth in earnings should provide some encouragement. We maintain our expectations for two more rate hikes this year, if employment generation does not deteriorate further. Our baseline scenario assumes 2% employment growth in 2016 (the average for the first four months is 1.92% YoY), down from 2.1% in 2015, with an average unemployment rate of 4.9% for the year. We see labor force participation at the very least stabilizing. April's employment report, although weaker than hoped for, is still consistent with this scenario.

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