

BBVA Research Flash

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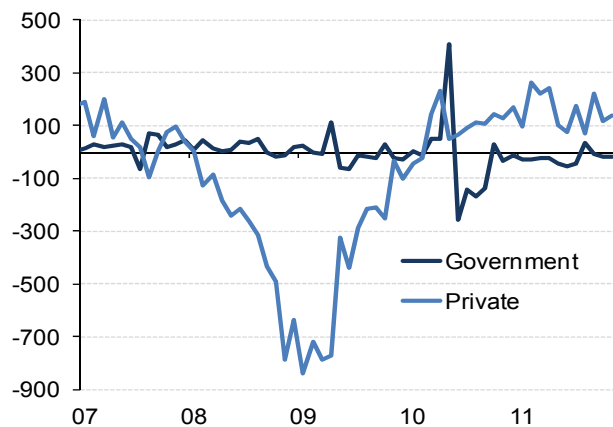
November Payrolls Rise Aside Surprising Drop in Unemployment Rate

- **Nonfarm payrolls increased 120K in November, while figures were revised up a combined 72K for September and October**
- **The private sector continues to lead job growth, rising 140K and partially offsetting further declines in government and construction payrolls**
- **The unemployment rate dropped to a 32-month low of 8.6%, although the data largely reflects a decline in the labor force**

Employment data released today somewhat confirm expectations for gradual improvements in the labor market. Nonfarm payrolls increased 120K in November following upward revisions to September (from 158K to 210K) and October (from 80K to 100K). The private sector continues to lead job growth, up 140K for the month mostly due to service-providing payrolls. Persistent increases in service employment, such as retail and leisure and hospitality, suggest that businesses are becoming more comfortable with the outlook for consumer demand. On the downside, government jobs continued to decline steadily and construction employment fell for the second consecutive month. Average hourly earnings fell 0.1% MoM following two consecutive months of growth, however, YoY growth remains steady.

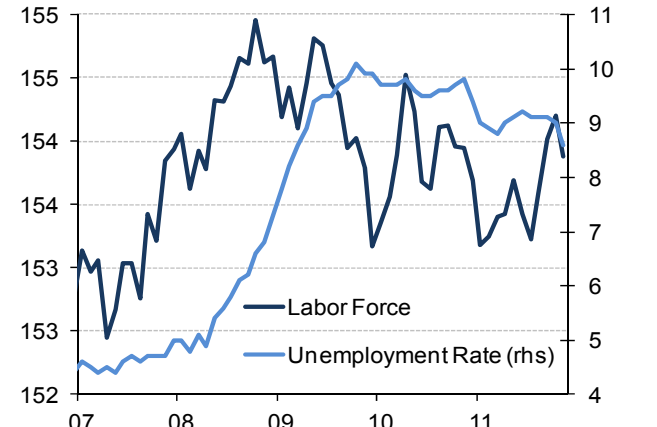
Although the employment report reveals continued improvement in the labor market, the data is somewhat deceiving. The unemployment rate dropped surprisingly to 8.6%, the lowest since March 2009, but largely reflects a decline of 315K in the labor force. The participation rate has been declining since the recession and near a decade-low at 64.0%, which is a discouraging sign for potential employment growth. The data also indicate an increase in discouraged workers, so many of those who left the labor force most likely did so because they could not find work. This furthers concerns of structural unemployment as employers appear to be having difficulty finding skilled workers to match their job requirements. Today's report is unlikely to influence Fed action in the near term but may be cause for some concern if the underlying data do not improve.

Chart 1
Private Sector and Government Payrolls
MoM change in K



Source: Bureau of Labor Statistics

Chart 1
Labor Force and Unemployment Rate
K, %



Source: Bureau of Labor Statistics

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