U.S. Employment Flash

Unemployment Rate Drops as Steady Job Growth Continues

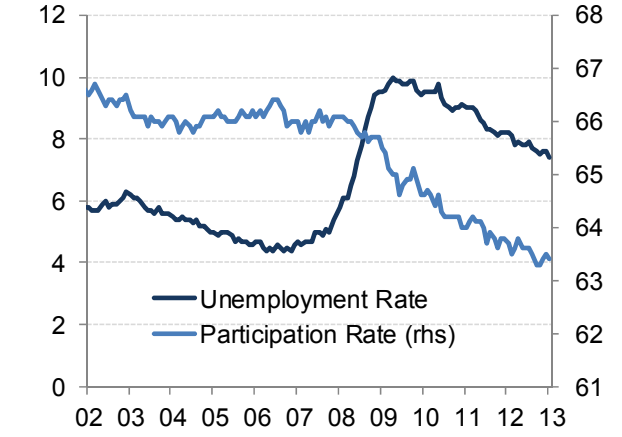
- **Nonfarm payrolls increased 162K in July following a 188K rise in June**
- **Government payrolls gained for the first time in three months**
- **The unemployment rate dropped to 7.4%, in part due to a decline in the labor force**

Employment conditions for the start of 3Q13 appear to be in line with expectations, but the underlying details are nothing significant to write home about. Nonfarm payrolls increased 162K for the month, following slight downward revisions to payrolls in May (195K to 176K) and June (195K to 188K). The private sector added only 161K jobs, the slowest increase since March, while the government sector added 1K jobs for the first time in three months. Manufacturing payrolls finally reversed the four-month downward trend, rising 6K in July and keeping in line with the latest improvements in the sector's activity indices. Retail trade led the private sector gains, up 46.8K for the month, with professional and businesses services a close second, up 36K. Construction jobs, on the other hand, declined for the third time in four months, down 6K in July, though we expect that hiring should pick up again given the pent-up housing demand for the season.

Despite this deceleration in payroll growth, the unemployment rate dropped from 7.6% in June to 7.4% in July. Employment growth on its own has not been strong enough to cause such a drastic monthly improvement, and again we see changes in the labor force influencing this figure. The participation rate dropped to 63.4%, though the unemployment-population ratio held steady at 58.7%. The number of people not in the labor force increased for the second consecutive month, up 0.3% in July. According to the CPS labor force status flows, more than 50% of the inflows into the "not in the labor force" category included those who just turned 16 as well as other adjustments to population totals. Close to 6% of unemployed individuals left the labor force, most of whom were unemployed 15-26 weeks. At this point, we maintain our expectations for an unemployment rate above 7.0% by the end of 2013, re-emphasizing the potential for reentrants into the labor force to put upward pressure on the figure as individuals become more confident looking for jobs again.

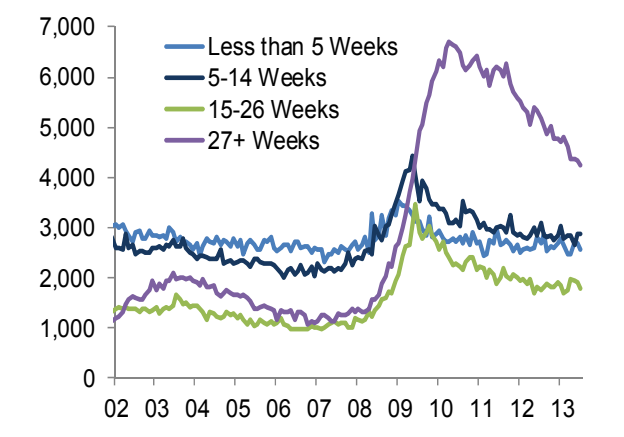
In other employment news, the average workweek dropped to 34.4 hours from 34.5 hours in June, while average hourly earnings declined 0.1% for the month. Wage growth has been very subdued given the significant resource slack in the economy, and we expect this slow growth trend to continue for some time. As the Fed keeps its eyes on these monthly jobs reports for signs of a stronger economy, the underlying details may be more telling than what we see on the surface. We continue to expect that the FOMC will first announce QE3 tapering at the September meeting, even though payroll growth may not yet be as strong as many policymakers would hope for.

Chart 1
Unemployment and Participation Rates
SA, %



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Civilian Unemployment Duration
SA, MoM Change in K



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