

Solid US employment report in January, despite a weak payroll print

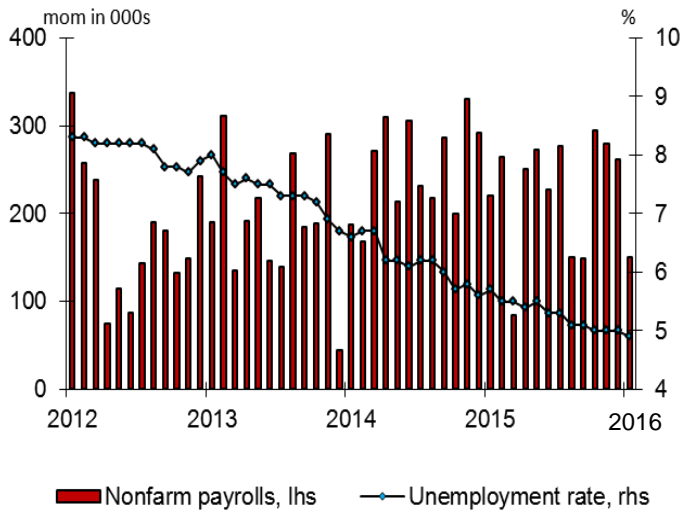
Olga Kosma
 Economic Analyst
okosma@eurobank.gr

- US nonfarm payrolls increased by a lower-than-expected 151k probably due to the unusually mild winter weather, while the respective figure for December was revised downwards from 292k to 262k (Figure 1). With the US economy approaching full employment, some payback in employment gains seems inevitable. Even after taking the weaker-than-expected January figure into account, non-farm payrolls have increased by a hefty 215k on average over the last six months. The January's deceleration in payroll growth was led by the services sector, which reported the slowest pace of employment gains over the past 10 months (+118k from +197k in the prior month). Some of the weakness in January's establishment report can be attributed to seasonal factors, as employment in several services categories, such as transportation and warehousing, contracted in January of previous years as well. Elsewhere, manufacturing employment continues to increase albeit at a slow pace, despite the weak manufacturing activity data in recent months.
- In contrast to the establishment survey, the outcome of the household survey was rather solid as civilian employment gained 615k after a 485k increase in the prior month, with full-time employment surging to 538k (previous +504k). The unemployment rate declined unexpectedly to an 8-year low of 4.9% from 5.0% in December 2015, brushing aside another 0.1pp rise in the labor force participation rate to 62.7%. The latter has cumulatively increased by 0.3pp over the past four months, standing at its highest level since last May.
- Average hourly earnings increased by 0.5%MoM in January, surpassing consensus estimate for a rise of 0.3%MoM, with the annual rate of growth falling to 2.5% from a post-recession peak of 2.7% in December (Figure 2). Although average hourly earnings is by nature a very volatile series, the annual wage growth has been trending upwardly over the past year.
- Even though January's employment report leaves the option of a fed funds rate hike at the March 15-16 FOMC meeting open, we share the view that the Fed will likely stay on hold given heightened concerns about the sustainability of the US economic recovery following the recent string of weaker-than-expected domestic macroeconomic data, rising risks from the global economic slowdown and tighter financial conditions. Futures market is currently assigning a probability of just below 50% for a 25bps rate hike by the end of 2016. Market focus now centres on Fed Chair Janet Yellen's speech on Wednesday, her first Semi-annual Monetary Policy Testimony to the Congress after Fed's liftoff in rates in December for the first time since 2008.

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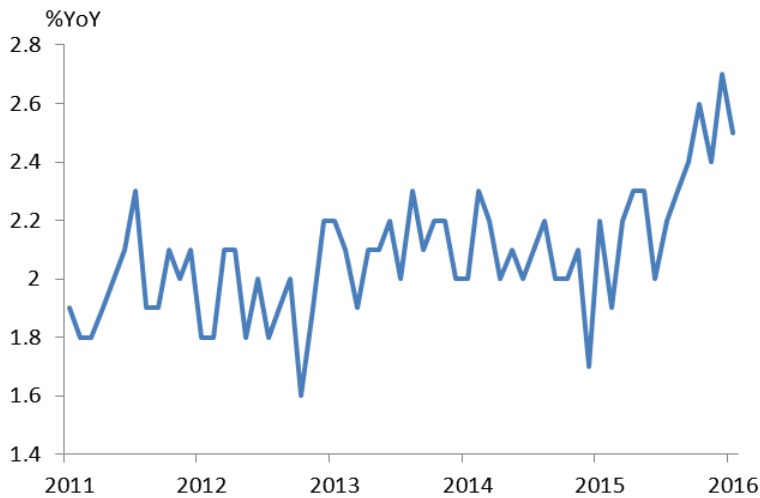
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Figure 1: US nonfarm payrolls & the unemployment rate



Source: US Bureau of Labor Statistics (BLS), Bloomberg, Eurobank Economic Research

Figure 2: US average hourly earnings



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Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokrousos: *Group Chief Economist*
pmonokrousos@eurobank.gr, + 30 210 37 18 903

Dr. Tassos Anastasatos: *Deputy Chief Economist*
tanastasatos@eurobank.gr, + 30 210 33 71 178

Research Team

Anna Dimitriadou: *Economic Analyst*
andimitriadou@eurobank.gr, + 30 210 37 18 793

Ioannis Gkionis: *Research Economist*
igkionis@eurobank.gr, + 30 210 33 71 225

Stylios Gogos: *Economic Analyst*
sgogos@eurobank.gr, + 30 210 33 71 226

Olga Kosma: *Economic Analyst*
okosma@eurobank.gr, + 30 210 33 71 227

Arkadia Konstantopoulou: *Research Assistant*
arkonstantopoulou@eurobank.gr, + 30 210 33 71 224

Paraskevi Petropoulou: *G10 Markets Analyst*
ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: *Research Economist*
gphoka@eurobank.gr, + 30 210 37 18 922

Theodoros Stamatou: *Senior Economist*
tstamatou@eurobank.gr, + 30 210 33 71 228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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