

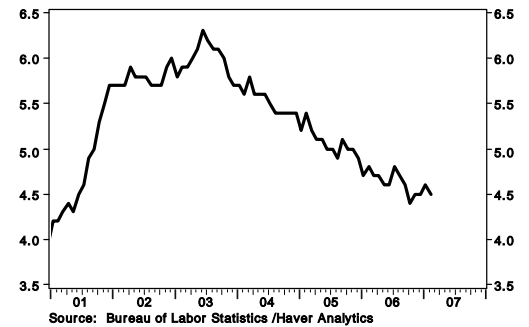
## FEBRUARY EMPLOYMENT REPORT

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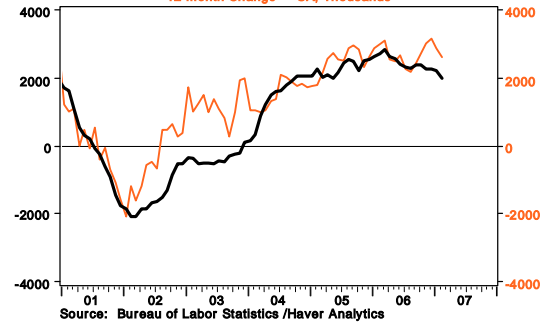
- Non-farm payrolls increased 97,000 in February, meeting consensus expectations. Payroll gains in December and January were revised up a total of 55,000, putting the level of payrolls 152,000 above what was reported a month ago.
- The unemployment rate ticked down to 4.5%, reversing last month's slight increase.
- Average hourly earnings increased 0.4% and are up 4.1% versus a year ago. The consensus expectation was for increases of 0.3% and 3.9%, respectively.

**Implications:** The job market continues to be in excellent shape. The unemployment rate is low, wages are rising at a robust rate, and payroll gains continue, with persistent upward revisions to previously reported data. Although payrolls came in as the consensus expected, we had forecast a much weaker number due to the snowstorm that hit the Midwest and Northeast in mid-February. That payrolls went up 97,000 despite the storm suggests great underlying fundamentals in the labor market, with large continued gains ahead. Our view has been that the economy will remain relatively strong despite the powerful correction in the housing market. Real GDP growth increased 4% in 2006 when housing is excluded. Today's report is consistent with that forecast as 97,000 jobs were added in February despite a (weather-enhanced) loss of 62,000 jobs in construction, the biggest one-month drop since January 1991. However, not all the news on the labor market was positive. Average weekly hours in the private sector ticked down to 33.7 from 33.8 in January, itself a drop from 33.9 in December 2006. Also, civilian employment dropped by 38,000, although this measure of job creation has exceeded payroll growth the past few years. Overall, today's report supports our view that the economy is strong and interest rate cuts are nowhere in sight.

Civilian Unemployment Rate: 16 yr +  
SA, %



Nonfarm Payroll  
12-month Change SA, Thousands  
Civilian Employment: Sixteen Years & Over  
12-month Change SA, Thousands



Employment Report <i>All Data Seasonally Adjusted</i>	Feb-07	Jan-07	Dec-06	3-month moving avg	6-month moving avg	12-month moving avg
<b>Unemployment Rate</b>	4.5	4.6	4.5	4.5	4.5	4.6
<b>Civilian Employment (monthly change in thousands)</b>	-38	31	303	99	217	217
<b>Nonfarm Payrolls (monthly change in thousands)</b>	97	146	226	156	162	167
Construction	-62	28	1	-11	-12	-2
Manufacturing	-14	-2	-12	-9	-17	-8
Retail Trade	7	25	-4	9	10	0
Finance, Insurance and Real Estate	8	4	16	9	12	13
Professional and Business Services	29	26	66	40	38	38
Education and Health Services	31	30	45	35	38	38
Leisure and Hospitality	31	22	49	34	40	37
Government	39	15	8	21	24	24
<b>Avg. Hourly Earnings: Total Private*</b>	0.4%	0.2%	0.5%	4.1%	3.8%	4.1%
<b>Avg. Weekly Hours: Total Private</b>	33.7	33.8	33.9	33.8	33.8	33.8
<b>Index of Aggregate Weekly Hours: Total Private*</b>	-0.3	-0.2	0.6	0.4	0.9	1.5

\*3, 6 and 12 month figures are % change annualized