Data Watch

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February Employment Report

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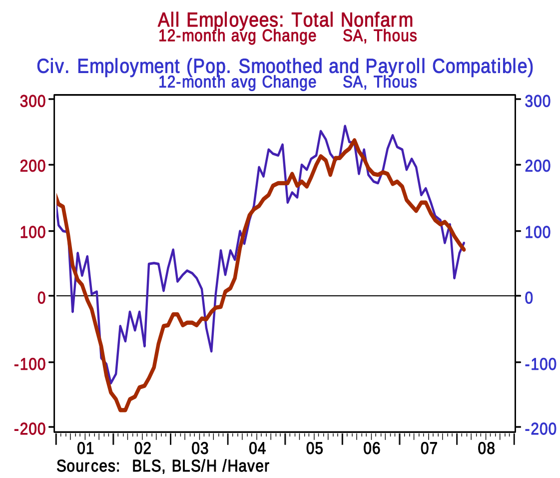
- Non-farm payrolls declined 63,000 in February while revisions to December and January subtracted 46,000. The consensus expected a gain of 25,000.
- Private sector payrolls declined 101,000 in February, the largest drop since March 2003. The weakest sectors were manufacturing (down 52,000), construction (down 39,000), retail trade (down 34,000) and temporary help services (down 28,000). Vigorous sectors included health care (up 36,000) and leisure/hospitality (up 21,000).
- The unemployment rate fell to 4.8% versus a consensus expected rise to 5.0%.
- Average hourly earnings rose 0.3% and are up 3.7% versus a year ago.



Implications: Today's report on payrolls is disappointing but not nearly as bad as many are making it out to be. Reports on layoffs in February ran below the level of February 2007 and unemployment claims are not signaling recession. What we have is a temporary hiring freeze at many firms in response to *fears* of a recession, not the kind of layoffs that occur during *actual* recessions. In addition, the February number may have been influenced by heavy snow that covered much of the US, particularly in the Midwest, which contains much of our nation's manufacturing sector. This was layered on top of another understandable 26,000 loss in home building jobs. The overall decline in payrolls in February is the second straight monthly drop, which rarely happens outside recessions. However, this is the first business cycle in history when Baby Boomers have started to retire. Negative payrolls in the 1980s and 1990s would have been a very bad sign given trend payroll growth of 200,000+ per month. In a world with trend payroll growth near 100,000, payroll declines are less indicative of recession. Also, the recent weakening in the labor market resembles the acceleration of post-recession job loses in early 2003, as fears mounted about the war with Iraq. That weakening was temporary, and we expect recent weakness to be temporary too. We were glad to see the unemployment rate tick down to 4.8% and note that the measure of the unemployment rate that includes "discouraged workers" also ticked down.

Employment Report *All Data Seasonally Adjusted*	Feb-08	Jan-08	Dec-07	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**4.8**	4.9	5.0	4.9	4.8	4.7
Civilian Employment (monthly change in thousands)	**-126**	539	-939	-175	46	82
Nonfarm Payrolls (monthly change in thousands)	**-63**	-22	41	-15	40	72
Construction	**-39**	-25	-55	-40	-34	-19
Manufacturing	**-52**	-31	-22	-35	-26	-25
Retail Trade	**-34**	0	-25	-20	-8	-1
Finance, Insurance and Real Estate	**-12**	-8	-8	-9	-13	-10
Professional and Business Services	**-20**	-9	52	8	21	19
Education and Health Services	**30**	49	46	42	38	45
Liesure and Hospitality	**21**	11	7	13	29	28
Government	**38**	4	55	32	27	21
Avg. Hourly Earnings: Total Private*	**0.3%**	0.3%	0.3%	3.7%	3.3%	3.7%
Avg. Weekly Hours: Total Private	**33.7**	33.7	33.8	33.7	33.8	33.8
Index of Aggregate Weekly Hours: Total Private*	**-0.1**	-0.4	0.1	-1.5	-0.2	1.0

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