

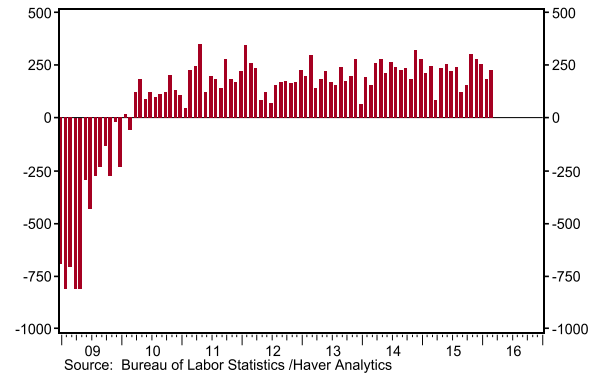
February Employment Report

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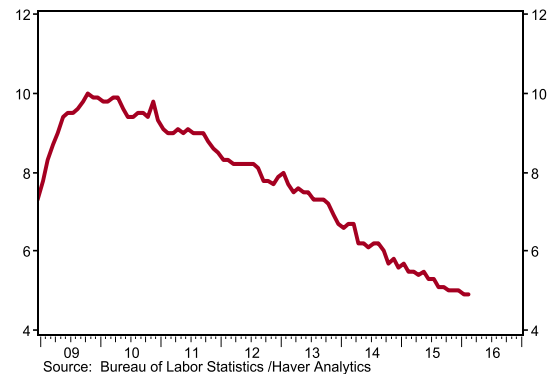
- Nonfarm payrolls increased 242,000 in February versus a consensus expected 195,000. Including revisions to December/January, payrolls rose 272,000.
- Private sector payrolls increased 230,000 in February, with revisions to prior months adding an additional 32,000. The largest gains in February were for education & health care (+86,000), retail (+55,000), and restaurants/bars (+40,000). Manufacturing payrolls declined 16,000 while government rose 12,000.
- The unemployment rate remained at 4.9%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – declined 0.1% in February but are up 2.2% versus a year ago.

Implications: Another month of good news on the labor market. The pace of hiring accelerated in February, with nonfarm payrolls up 242,000, and December and January were revised up as well. Civilian employment, an alternative measure of jobs that includes small-business start-ups rose 530,000 in February. In the past year, payrolls are up 223,000 per month while civilian employment is up 222,000 per month. In other words, both are pointing to an underlying trend just north of 220,000. Although the unemployment rate remained steady at 4.9%, that’s because growth in the labor force is accelerating as well. The labor force expanded 555,000 in February and is up 1.8 million in the past year, the largest increase for any 12-month period since the end of the recession. As a result, the participation rate rose to 62.9% in February. That’s still very low by historical standards, but, after hitting a post-1977 low of 62.4% back in September, the participation rate has increased by the most in any five-month period since the early 1990s. More jobs and an upward trend in “real” (inflation-adjusted) wages appears to be drawing more workers back into the labor force, temporarily offsetting the negative effects of aging Boomers, easily available disability benefits, and overly generous student aid. Fewer discouraged workers also sent the U-6 version of the unemployment rate lower even as the headline jobless rate remained at 4.9%. The U-6 version includes discouraged workers and part-timers who say they want full-time jobs. That peaked at 17.1% in 2009-10, was 9.9% in January and dropped to 9.7% in February. However, several of the details in today’s report were not as good as the headlines. Workers’ earnings fell 0.5% in February, due to a 0.4% drop in total hours worked while average hourly earnings slipped 0.1%. The silver lining is that workers’ earnings are still up 3.8% in the past year in a relatively low inflation environment, more than enough to boost their “real” purchasing power. Other negatives in today’s report were an increase in the median duration of unemployment and fewer quitters as a share of the unemployed. Overall, we think today’s report means the Federal Reserve is still likely to raise rates again in the first half of 2016. They’ll probably wait until June, but economic fundamentals justify a rate hike in March. A modest series of rate hikes will not kill economic growth; it will help prevent mal-investment (like in the housing bubble in the prior decade) and future inflation. Either way, look for continued robust job growth in 2016.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Feb-16	Jan-16	Dec-15	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.9	4.9	5.0	4.9	5.0	5.2
Civilian Employment (monthly change in thousands)	530	409	488	476	306	222
Nonfarm Payrolls (monthly change in thousands)	242	172	271	228	235	223
Construction	19	15	48	27	32	21
Manufacturing	-16	23	6	4	2	1
Retail Trade	55	62	7	41	34	28
Finance, Insurance and Real Estate	6	16	8	10	10	12
Professional and Business Services	23	15	60	33	46	51
Education and Health Services	86	24	63	58	59	58
Leisure and Hospitality	48	45	35	43	46	37
Government	12	-10	12	5	-1	6
Avg. Hourly Earnings: Total Private*	-0.1%	0.5%	0.0%	1.3%	1.8%	2.2%
Avg. Weekly Hours: Total Private	34.4	34.6	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	-0.4%	0.4%	0.3%	1.2%	1.2%	1.5%

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