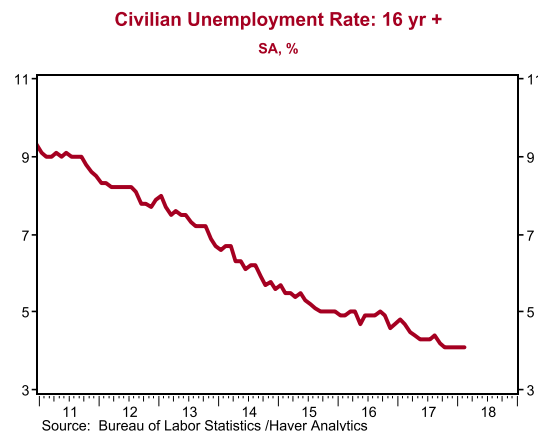
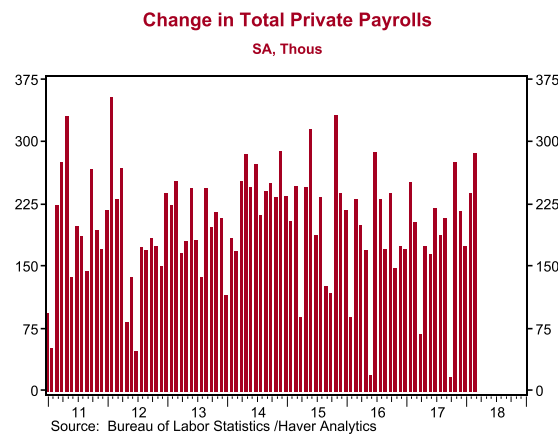


February Employment Report

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- Nonfarm payrolls rose 313,000 in February, easily beating the consensus expected 205,000. Including revisions to December/January, nonfarm payrolls increased 367,000.
- Private sector payrolls rose 287,000 in February and revisions to prior months added 50,000. The largest increases in February were for construction (+61,000), retail (+50,000), and professional & business services (+50,000, including temps). Manufacturing increased 31,000 while government rose 26,000.
- The unemployment rate remained at 4.1%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.1% in February and are up 2.6% versus a year ago.

Implications: The job market boomed in February, a clear sign the Federal Reserve is behind the curve. Nonfarm payrolls grew 313,000 in February, the largest increase in 19 months, beating the forecast from every economics group. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, increased 785,000. In the past year, nonfarm payrolls are up 190,000 per month while civilian employment is up 202,000 per month, both solid figures. Given tax cuts and deregulation, we expect similar gains in the year ahead. Although the unemployment rate remained at 4.1% in February, that stability was due to an 806,000 increase in the labor force. As a result, the labor force participation rate rose to 63.0%. That’s still low by the standards of the past 40 years, but it ties the highest level since March 2014. Some analysts will bemoan the tepid 0.1% gain in average hourly earnings in February, but these wages, which don’t include irregular bonuses or commissions, are up a respectable 2.6% from a year ago. Meanwhile, total hours worked rose 0.6% in February and are up 2.2% from a year ago. As a result, total earnings, which combine the total number of hours and average hourly earnings, are up 4.8% from a year ago, suggesting plenty of growth in consumer purchasing power. In other recent news on the labor market, new claims for jobless benefits increased 21,000 last week to a still-low 231,000. Continuing claims fell 64,000 to 1.87 million. These figures are consistent with continued healthy job growth in March, although at a pace that’s likely to be slower than the rapid gains in February. What will the Fed do with all this? It’s almost certainly going to raise rates on March 21. At present the futures market in federal funds suggests 37% odds of the Fed raising rates by at least 100 basis points this year; we’d put those odds at more like 60%. If so, long-term rates should continue to trend up as well.



Employment Report <i>All Data Seasonally Adjusted</i>	Feb-18	Jan-18	Dec-17	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.1	4.1	4.1	4.1	4.1	4.2
Civilian Employment (monthly change in thousands)	785	90	108	328	240	202
Nonfarm Payrolls (monthly change in thousands)	313	239	175	242	205	190
Construction	61	40	42	48	35	21
Manufacturing	31	25	39	32	25	19
Retail Trade	50	15	-26	13	12	3
Finance, Insurance and Real Estate	28	8	8	15	12	12
Professional and Business Services	50	33	31	38	36	41
Education and Health Services	23	63	30	39	31	37
Leisure and Hospitality	16	39	31	29	24	27
Government	26	1	1	9	3	4
Avg. Hourly Earnings: Total Private*	0.1%	0.3%	0.4%	3.2%	2.7%	2.6%
Avg. Weekly Hours: Total Private	34.5	34.4	34.5	34.5	34.4	34.4
Index of Aggregate Weekly Hours: Total Private*	0.6%	-0.1%	0.2%	2.6%	2.6%	2.2%

Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized