

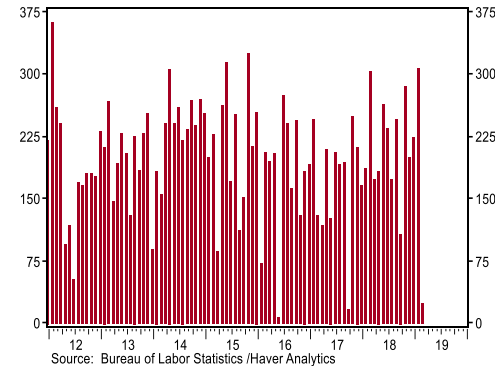
February Employment Report

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- Nonfarm payrolls rose 20,000 in February, falling well short of the consensus expected 180,000. Including revisions to December/January, nonfarm payrolls increased 32,000.
- Private sector payrolls rose 25,000 in February while revisions to the two prior months added 30,000. The largest increase in February was for professional & business services (+42,000, including temps); the largest decline was for construction (-31,000). Manufacturing increased 4,000 while government declined 5,000.
- The unemployment rate fell to 3.8% in February from 4.0% in January.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.4% in February and are up 3.4% versus a year ago.

Implications: Don't get bent out of shape by today's soft report on payroll growth. Yes, February payrolls only increased 20,000 versus a consensus expected 180,000, well below the forecast of any economics group. And, yes, that's the smallest increase since September 2017, when the numbers were held down by Hurricanes Harvey and Irma. But here are several reasons not to be worried. First, payrolls grew an above-trend 227,000 in December and 311,000 in January. Put the past three months together and payrolls are up 186,000 per month, both overall and for the private-sector. That's very strong growth this deep into an economic expansion, especially with relatively slow population growth. Second, we've had unusually soft initial jobs reports in the past that end up getting revised up substantially. For example, September 2017 was initially reported at -33,000 and is now estimated at +18,000; August 2011 was initially reported as zero change and is now estimated at +122,000. Third, civilian employment, an alternative measure of jobs that includes small-business start-ups, increased 255,000 in February. In the past year, nonfarm payrolls are up 209,000 per month while civilian employment is up 181,000. Growth in employment and a small (45,000) reduction in the labor force combined to push the jobless rate back down to 3.8%, as furloughed government employees returned to work. (Furloughed employees had a minor effect on payrolls but impacted civilian employment more because that data comes from workers themselves.) Fourth, average hourly earnings rose 0.4% in February and are up 3.4% from a year ago, the largest increase in a decade. The gain in earnings offset a drop in the number of hours worked, so total earnings were up 0.1% for the month and up 5.1% from a year ago, meaning consumers have plenty of purchasing power. Lastly, those who are still unemployed are not as desperate as those unemployed a few years ago. Those who have lost jobs or finished temporary positions make up 45.9% of the unemployed, the lowest since 2000, at the peak of the internet boom. This is in stark contrast to the 65.3% who had lost jobs or finished temporary positions in 2009. This means 54.1% of the unemployed are voluntary job leavers, new entrants or re-entrants into the labor force, up from 34.7% in 2009. As a result, we think the market consensus that the Federal Reserve has zero chance of raising rates this year and a 15-20% chance of cutting rates at least once is sorely mistaken. Look for job growth to average about 175,000 in the next twelve months and for wage growth to keep accelerating. In time, that should put upward pressure on long-term interest rates, giving the Fed the room it thinks it needs to raise short-term rates, as well.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Feb-19	Jan-19	Dec-18	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	3.8	4.0	3.9	3.9	3.8	3.9
Civilian Employment (monthly change in thousands)	255	238	137	210	302	181
Nonfarm Payrolls (monthly change in thousands)	20	311	227	186	190	209
Construction	-31	53	16	13	14	19
Manufacturing	4	21	20	15	20	20
Retail Trade	-6	14	-6	1	0	0
Finance, Insurance and Real Estate	6	9	1	5	8	9
Professional and Business Services	42	15	37	31	39	45
Education and Health Services	4	64	67	45	38	42
Leisure and Hospitality	0	89	65	51	41	34
Government	-5	3	3	0	-2	7
Avg. Hourly Earnings: Total Private*	0.4%	0.1%	0.4%	3.4%	3.2%	3.4%
Avg. Weekly Hours: Total Private	34.4	34.5	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	-0.3%	0.2%	0.5%	1.8%	1.1%	1.7%

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

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