ECONOMIC UPDATE

REGIONS

March 9, 2018

February Employment Report: The Trend, Not The Headline, Is Your True Friend

- Nonfarm employment rose by 313,000 jobs in February; prior estimates for December/January were revised up by a net 54,000 jobs
- Average hourly earnings rose by 0.1 percent; aggregate private sector earnings rose by 0.7 percent in February (up 4.8 percent year-on-year)
- The unemployment rate was unchanged at 4.1 percent in February (4.142 percent, unrounded); the broader U6 measure stands at 8.2 percent

Total nonfarm employment rose by 313,000 jobs in February, bettering our above-consensus forecast of a 227,000 job increase, with private sector payrolls up by 287,000 jobs and public sector payrolls up by 26,000 jobs. Prior estimates of job growth for December/January were revised up by a net 54,000 jobs for the two-month period. The unemployment rate held at 4.1 percent but this masks sizeable increases in both the size of the labor force and the level of household employment, and the participation rate rose to 63.0 percent. Wage growth remained somewhat muted, with February seeing a 0.1 percent increase in average hourly earnings while January's increase – you remember, the one that incited the great inflation scare of 2018 – was revised lower.

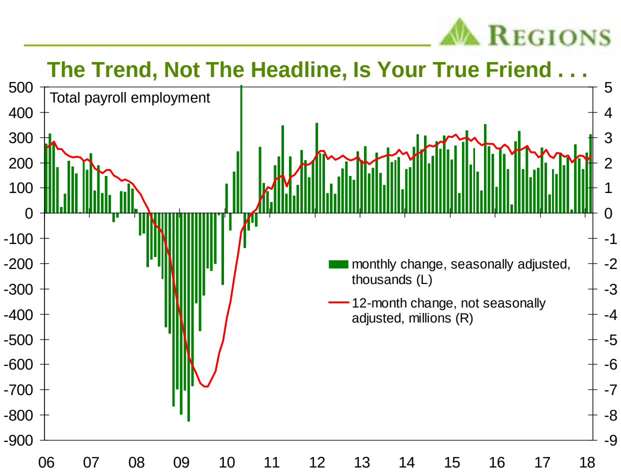
There is some seasonal adjustment noise in the February data, such that the headline job growth number is at least a little overstated. Additionally, given that the BLS's survey period came early in January, there was in essence an extra week between the January and February survey periods, which in essence pushed some of January's job growth into the February data. We raise these points not because we can't stand good news, or good data, but instead to put the February report in proper context. As we often note, the trends in the not seasonally adjusted data – for any given data series – are the more reliable indicator of underlying trends, and we see the running 12-month total of not seasonally adjusted job growth as the best gauge of the trend rate of job growth, and this is shown by the red line in our first chart below. On this basis, the U.S. economy has added 2.273 million jobs over the past year, a solid rate of job growth.

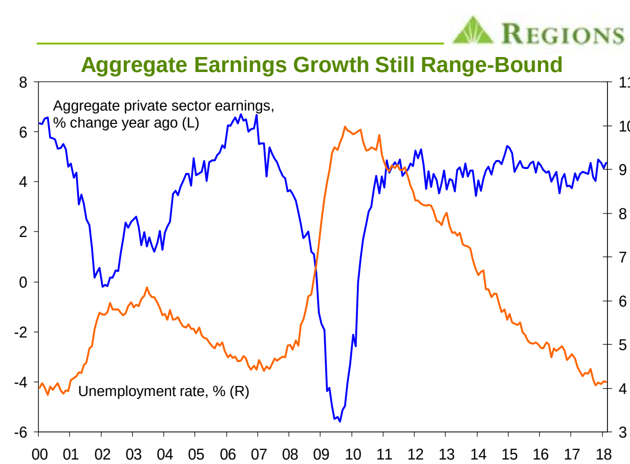
We have often noted that one of the hallmarks of the current expansion is how broad based job growth has been, and this remained the case in February. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, jumped to 68.6 percent in February, the highest since January 2012, while the comparable index for the manufacturing sector rose to 69.1 percent, consistent with other metrics showing a broad based expansion in the factory sector. Payrolls in the goods producing industries rose by 100,000 jobs, with construction payrolls up by 61,000 jobs and manufacturing payrolls up by 31,000 jobs. Private service providing industries added 187,000 jobs in February, but the reported 50,000 job increase in retail trade is suspect. Not seasonally adjusted retail trade payrolls fell by 131,000 jobs which, on a percentage change basis, is smaller than normal for the month of February, meaning that the seasonally adjusted increase is overstated. As for the public sector, the 27,000 job increase in local government education payrolls likely reflects the return of those not at work due to harsh winter weather that led to schools being closed during the January survey period.

It is worth digging into the sizeable increase in the labor force reported for February. Almost half of the 806,000 person increase was accounted for by people 55 and older, which simply illustrates how jumpy the labor force data can be from month to month. What to us is of far more significance is the data on labor force flows, which show the number of people exiting the labor force in February was the lowest since November 2008. At the same time, 6.5 million people entered the labor force in February, of whom over 4.5 million transitioned from not in the labor force in January to employed in February. This metric has been above 4.5 million over the past several months, and while it won't remain at this rate forever, we think this pace can be sustained for some time to come, belying the notion firms are "running out of workers to hire."

This steady inflow is helping tamp down wage pressures, which are of course building but not nearly as strongly as implied by the initial print on January average hourly earnings. We think the February print means as much for the FOMC as we thought the initial January print did, which is to say very little. The FOMC is expecting some wage growth this year but there is nothing in any of the various measures, including hourly earnings, to suggest wage growth is surprising the FOMC to the upside.

While we think the headline job growth number overstates the case, there is plenty of evidence elsewhere in the February employment to support our contention that the labor market is rock solid.





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