ECONOMIC UPDATE

REGIONS

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February Employment Report: A Report With Something For Everyone

- Nonfarm employment rose by 242,000 jobs in February; prior estimates for December/January were revised up by a net 30,000 jobs.
- Average hourly earnings fell by 0.11 percent, with aggregate private sector earnings down 0.51 percent (up 3.85 percent year-over-year).
- The unemployment rate held at 4.9 percent (4.918 percent unrounded); the broader U6 measure fell to 9.7 percent.

Total nonfarm employment rose by 242,000 jobs in February, with private sector payrolls rising by 230,000 jobs and government sector payrolls up by 12,000 jobs. Prior estimates for December and January were revised up by a net 30,000 jobs for the two-month period. Sizeable increases in the labor force and household employment left the U3 unemployment rate at 4.9 percent, while the broader U6 measure that also accounts for underemployment and marginal attachment to the labor force fell to 9.7 percent, the lowest since May 2008.

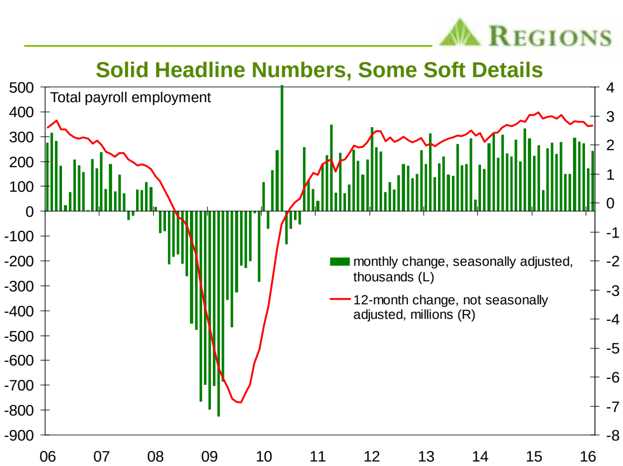
So far, it may sound like the February employment report was solid, but – and you just knew there was one of those coming – some of the details are concerning. For instance, average weekly hours fell by two-tenths of an hour, average hourly earnings fell by 0.1 percent while prior estimates for the past two months were trimmed by one cent in each month. The hiring diffusion index, which measures the breadth of hiring across private sector industries, fell slightly for the private sector as a whole but fell sharply for the manufacturing sector.

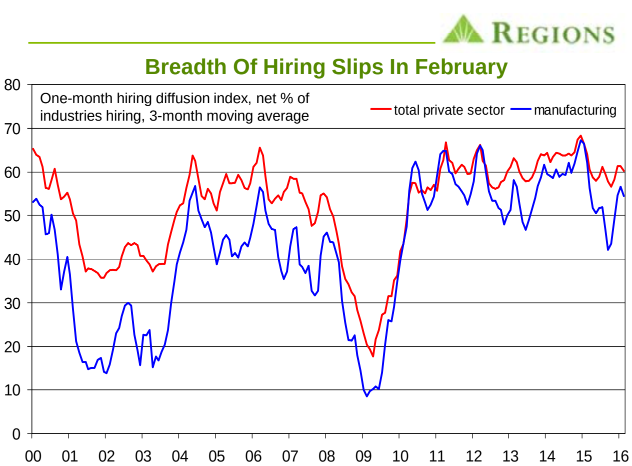
We had noted in our weekly *Economic Preview* that the survey week for the payroll report coincided with the worst of that month's turmoil in the financial markets, which could have led firms to pull back not only on hiring but also on hours worked. To the extent this was the case, it is less worrisome as those are the types of changes that are easily reversed. Indeed, one need only go back to August and September when a spike in fears over the outlook for global growth brought about similar changes in hours worked and the breadth of hiring but these were quickly reversed. But, for now, the changes in hours and earnings mean the income details of the February report were notably weak despite the sizeable increase in total employment. This clearly merits close attention over coming months.

We had also noted we thought the December and January reports to be somewhat noisy, and to some extent the February report settles some of the questions we had. Manufacturing payrolls fell by 16,000 jobs after a curiously large gain in January and job losses were fairly widely dispersed across durable and nondurable goods industry groups, which is consistent with the sharp decline in the hiring diffusion index for the factory sector. Payrolls in education and health services rose by 86,000 jobs, making up for a smaller than trend increase in January. Construction payrolls were up by 19,000 jobs but hours worked fell sharply, as did hour worked in the utilities industry group, but reduced hours in these two groups are more a reflection of weather than anything else. Payrolls in mining & natural resources fell another 18,000 jobs, bringing total job losses in this industry group to 170,000 since payrolls peaked in September 2014.

Average hourly earnings fell 0.1 percent in February pushing the over-the-year increase down to 2.2 percent from 2.6 percent in December and 2.5 percent in January. We have noted all along, however, we thought these growth rates to be more a reflection of noise in the data rather than the start of sustained acceleration in earnings growth. Our view was, and remains, there is still a sufficient degree of slack in the labor market to preclude a meaningful, sustained acceleration in hourly earnings growth. While the decline in the U6 rate may seem at odds with our view, that decline came from fewer people being marginally attached to the labor force in February, as the number of those working part-time for economic reasons was unchanged at 5.988 million people and the number of unemployed people rose, reflecting the large number of new entrants into the labor force who did not immediately land jobs. Our estimate is that the number of "underutilized labor resources" remains over two million people greater than would be consistent with a fully healthy labor market, and this helps shape our view on wage growth.

All in all, the February employment report had something for everyone no matter how they view the overall economy. For the FOMC, the wage data likely take March off the table in terms of a hike in the Fed funds rate. For us, our view of the labor market remains the same – significant progress to date, but with much further to go.





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