ECONOMIC UPDATE

REGIONS

March 8, 2019

February Employment Report: Headline Number Belies Further Tightening

- Nonfarm employment rose by 20,000 jobs in February; prior estimates for December/January were revised up by a net 12,000 jobs
- Average hourly earnings rose by 0.4 percent in February; aggregate private sector earnings rose by 0.1 percent (up 5.1 percent year-on-year)
- The unemployment rate fell to 3.8 percent in February (3.821 percent, unrounded); the broader U6 measure fell to 7.3 percent

Our regular readers are by now familiar with our general rule for interpreting the various economic data releases, which is that the headline number is typically the most meaningless number in the entire report. The February employment report is the latest illustration of our general rule. Total nonfarm employment rose by just 20,000 jobs, far, far below even the lowest estimate, with private sector payrolls up by 25,000 jobs and public sector payrolls down by 5,000 jobs. Prior estimates of job growth in December and January were revised up by a net 12,000 jobs for the two-month period, with private sector job growth pushed up by a net 30,000 jobs and public sector job growth marked down by 18,000 jobs. Average hourly earnings rose by 0.4 percent, leaving them up 3.4 percent year-on-year, both matching our forecast and marking a cycle high for wage growth. The unemployment rate fell to 3.8 percent and the broader U6 measure which, accounts for underemployment and unemployment, fell from 8.1 percent in January to 7.3 percent in February, the largest monthly decline on record. The headline job growth number is at odds with the underlying details, but, being the headline number, that is what is shaping perceptions of the February employment report.

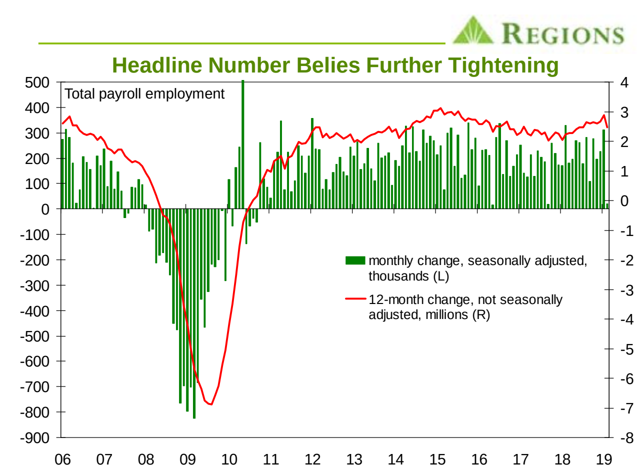
In reality, measured job growth in February has to be considered in the context of reported job growth in January, with neither reflecting the underlying health of the labor market. As we noted last month, measured job growth in January was biased higher by seasonal adjustment issues stemming from atypically mild weather during the establishment survey week. This led to inflated estimates of seasonally adjusted job growth in construction (53,000), retail trade (13,700), and leisure & hospitality services (89,000). In our weekly *Economic Preview*, we cautioned that the February data would bring a reversal of these gains, which proved to be the case, with a net loss of 37,000 jobs amongst these industry groups.

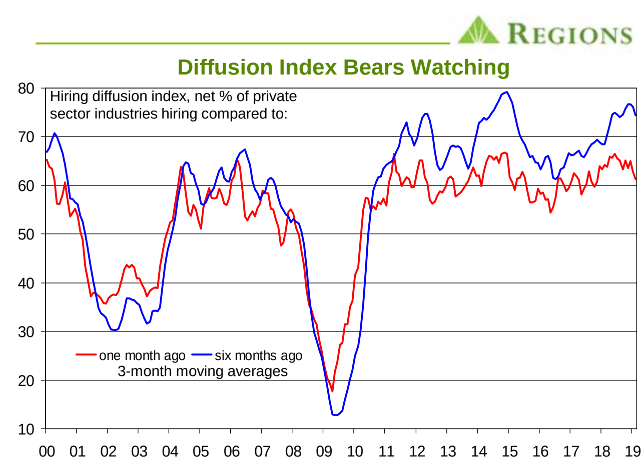
Weather also played a hand in the February employment report; 390,000 people were not at work due to bad weather and another 1.897 million people worked fewer than their normal full-time hours due to bad weather, each the highest of any February since 2014. This accounts for the one-tenth of an hour decline in the average length of the workweek. As we often note, if this seems a trivial change, each one-tenth of an hour change in the length of the workweek is equivalent to over 300,000 private sector jobs in terms of the economy's productive capacity.

The decline in the unemployment rate in part reflects the unwinding of the effects of the partial government shutdown, which pushed the jobless rate up to 4.0 percent in January, and in part reflects a reported decline in the labor force. The shutdown helped push the broader U6 rate up to 8.1 percent in January as many displaced government workers and private sector contractors took on temporary part-time work, and this effect was also unwound in the February data. The number of people working part-time for economic reasons fell from 5.147 million in January to 4.310 million in February. The data on labor force flows show that 4.685 million people went from being not in the labor force in January to being employed in February – we have routinely pointed to this series as a useful indicator of remaining labor market slack. The drop in the labor force in February in part reflects a jump in the number of unemployed people leaving the labor force.

While we don't put much stock in the headline job growth number, there is one beneath the headlines metric that does bear watching. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, dropped to 57.2 percent in February, the lowest since September 2017. This metric can be jumpy from one month to the next so, while not reading too much into February's decline, we certainly take notice, as we have pointed to the breadth of job growth this deep in the cycle as a sign this expansion has further to run.

The U.S. economy is clearly downshifting into a slower pace of growth, which does not happen in straight lines, so the high frequency data are likely to be volatile. That said, the details of the February employment report show further tightening in the labor market, which we expect to continue in the months ahead.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com