Data Release: U.S. labor market plows ahead in February

- Non-farm payrolls increased by 295k in February, way above expectations for a 235k gain. However, revisions to the previous two months subtracted 18k from the tally.
- Private payrolls rose by 288k on the month with private service industries up 259k. Private services growth was led by leisure & hospitality (+66k), education & health (+54k), and professional & business services (+51k, despite a pullback of 8k in temporary services). Retail (+32k) & wholesale trade (+12k) also added handsomely, as did transportation & warehousing (+18k).
- Goods-producing industries had a respectable month rising by 29k. Gains were driven by construction (+29k) and manufacturing (+8k), while mining & logging lost 8k positions.
- Government hiring rose by 7k entirely driven by gains at the state (+3k) and local (+4k) levels, while federal government payrolls remained unchanged.
- Despite only a 96k gain in household employment the unemployment rate decreased by 0.2 percentage points to 5.5% as 178k people left the labor force. The labor force participation rate inched down by 0.1pp to 62.8%.
- Average hourly earnings were up an unimpressive 0.1% during the month, falling short of expectations for a 0.2% gain. The year-over-year measure pulled back to just 2.0%.
- Average weekly hours remained unchanged at 34.6.

Key Implications

- As has been the case in recent months, payrolls continued to deliver despite somewhat mixed economic indicators. While the consensus call was 235k, markets appeared ready to take in stride a much lower headline figure in light of the icy February weather – with Chicago experiencing the coldest month in 140 years and Boston digging itself out from record snowfall for much of the month.
- The robust headline was reinforced by widespread gains across industries in spite of the inclement weather, disruptions to supply chains from the West Coast port dispute, and strikes of refinery workers – which resulted in a 5.7k decline in petroleum manufacturing employment. On the whole, the diffusion index rose to 65.4, indicating that nearly 2/3rd of all sectors saw gains in headcount.
- The news was somewhat less upbeat elsewhere in the report. After the 0.3% gain in January, the 0.1% wage uptick in February was very modest, with gains completely absent when supervisory employees were excluded.
- The decline in the labor force was disappointing, but not unexpected given the huge gain in January. As such, we welcome the decline in the jobless rate, with the positive take further corroborated by improvement in other measures of labor underutilization.
- On the whole, the report suggests that the U.S. labor market continues to power on in spite of the harsh winter, labor disruptions, and a challenging external environment. Having said that, there is still room for improvement, with the Fed unlikely to rush into rate hikes until wages and inflation indicators begin to heat up.

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