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TD Economics

Data Release: No signs of recession in U.S. labor market

- Non-farm payrolls rose by 242k in February, well above the consensus estimate for 195k. Private sector hiring expanded by 230k, also beating expectations for 190k.
- Revisions added an additional 30k to payrolls, bringing the January tally to 172k (from 151k) and December to 271k (from 262k).
- The unemployment rate was flat at 4.9%. Still, household survey employment rose a whopping 530k, but was met with even stronger labor force growth of 555k. The participation rate rose 0.2 percentage points to 62.9%, the highest level in over a year.
- Private goods producing employment fell by 15k, as manufacturing fell 16k and mining and logging (including oil & gas extraction) employment fell a whopping 18k. This was offset by 19k gains in construction employment. Private service providing employment rose 245k, up from 153k in January with gains led by education and health (+86k).
- The one soft spot in the report was wage growth. Average hourly earnings fell 0.1% on the month and decelerated to 2.2% (from 2.5%) on a year-over-year basis. Average hours worked also pulled back 0.6%.

Key Implications

- Once again the labor market belies the apparent weakness in other indicators and fears in financial markets over the state of the American economy. This is not an economy on the brink of recession.
- The improvement in the labor force participation rate is particularly encouraging suggesting that the gains in employment are now clearly eating into shadow labor market slack and implying that the healing in the labor market is more than skin deep.
- For the Fed, the slowdown in wage growth bears watching. With a strong dollar and rising participation rate, the Fed can afford to let the labor market recovery run before worrying too much about inflation. While the underlying strength in the labor market is a strong argument to continue normalizing policy, these factors will keep the adjustment extremely gradual.

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