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TD Economics

Data Release: Hiring spree continues in February, solidifying case for rate hike next week

- Non-farm payrolls increased by 235k in February, or well ahead of the 200k expected by the street. Revisions to the previous two months' of payrolls added 9k positions with January hiring now reported as 238k..
- Private payrolls rose by 227k, some 12k above the consensus expectations for 215k. Private services hiring was led by health care & education (+62k), business services (+37k), leisure & hospitality (+26k) and transport (+16k). Goods hiring was nothing short of phenomenal, with construction (+58k) and manufacturing (+28k) both having great months, with mining & logging (+9k) even adding to the mix. Government hiring (+8k) was modest, with federal level hiring (+2k) up despite a hiring freeze put in by the new administration.
- The unemployment rate ticked down by 0.1 percentage points to 4.7% as the huge gain in employment was more than enough to offset the number of people re-entering the labor force. The additional influx has lifted the participation rate up by 0.1pp to 63.0% on the month – the highest level in nearly a year. Other underemployment measures were also lower, with the broadest measure (U-6) down 0.2pp to 9.2% - matching its level of April 2008.
- Average hourly earnings rose by 0.2% during the month, slightly disappointing expectations for a 0.3% m/m print, but this came atop of upward revisions to the previous months. On the whole, the year-over-year wage growth accelerated from 2.6% to 2.8% in February.
- Average weekly hours were unchanged at 34.4.

Key Implications

- This was a solid employment report any way you slice it. The headline blew past expectations, already elevated given the outsized ADP print mid-week. Moreover, the hiring was very broad, with the number of industries showing increases at its highest level since December 2015 – with all but retail and utilities adding jobs on the month. The same was true for manufacturing industries, with the diffusion index at its highest level in more than two years. Mining too, showed resilience, adding jobs for the fourth consecutive month – underscoring the notion that the worst is behind the sector.
- The one note of caution has perhaps to do with some of the seasonality that could have crept into the data, particularly in weather-affected sectors. A mild Northeastern winter could have brought forward many construction projects and hiring, something that was apparently not offset by the heavy-rains in California. This suggests that some caution may be warranted as far as hiring across these sectors in the coming months.
- Interestingly, the wage print, while decent at 0.2% m/m in both February as well as in the month prior, did not show as much strength as was anticipated, particularly given the implementation of minimum wage legislation across 19 states in January. Having said that, at 2.8% on a year over year basis, and with broad improvement in underutilization measures, we think this report all but solidifies a rate hike from the Fed next Wednesday, with two more likely to come later this year.

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