

## BOOMING US EMPLOYMENT IN FEBRUARY

*\*The February U.S. employment report was very strong with robust job gains, rapid labor force growth, and a moderation in average hourly earnings growth that should quell concerns about accelerating inflationary pressures. It provides further evidence of improving U.S. economic momentum that we expect will lead the Fed to raise its policy rate each quarter this year:*

- U.S. establishments added 313k jobs in February – the best monthly gain since July 2016 – a remarkable feat at this advanced stage of the labor market recovery. Back revisions totaled +54k (Chart 1)
- The unemployment rate remained unchanged at 4.1% for the fifth consecutive month as the labor force increased by 806k – the best monthly increase since January 2003 – and suggests an increased supply of labor with persons on the sidelines very confident about job finding prospects (Chart 2)
- Average hourly earnings growth moderated to 0.1% m/m and 2.6% yr/yr in February from 0.3% m/m and 2.8% yr/yr in January (revised lower from 2.9%). For the Fed, wage gains are a key indicator of labor market tightness and with continued robust job gains, the Fed expects wages to pick-up (Chart 3).

The sustained robust pace of hiring is a result of elevated business optimism stemming from the Tax Cuts and Jobs Act, broader deregulation, synchronized improvement in global growth, prospects for increased fiscal spending on infrastructure projects, and higher energy prices that has boosted activity in the oil and gas, and supporting sectors. The robust job growth suggests significant tailwinds to the economy on the eve of adjustments in individual withholding tables that are boosting personal disposable incomes.

Note that **this is the last employment report before the FOMC's March 20-21 meeting** and suggests strongly, as we have previously suggested, that the Fed will revise up its economic forecasts and possible its policy rate path for this year.

The household survey was strong with its measure of employment increasing by 785k and unemployment increasing by only 22k. The labor force participation rate picked up to 63% after remaining at 62.7% for four consecutive months (Chart 4).

Hiring accelerated in the goods-producing sector to 100k, the most since August 1998, because of a 61k increase in construction jobs (Chart 5). Service sector employment increased by a robust 187k, with an above-trend 50k increase in retail employment and a sizable 27k increase in temporary help services employment that usually signals that businesses are boosting the pace of activity.

Average hourly earnings moderated somewhat from its strong January gain. This wage measure is notoriously volatile month-to-month and is sometimes affected by calendar quirks, so monthly changes are to be taken in stride. The underlying trend in wages lies somewhere between the January and February gain.

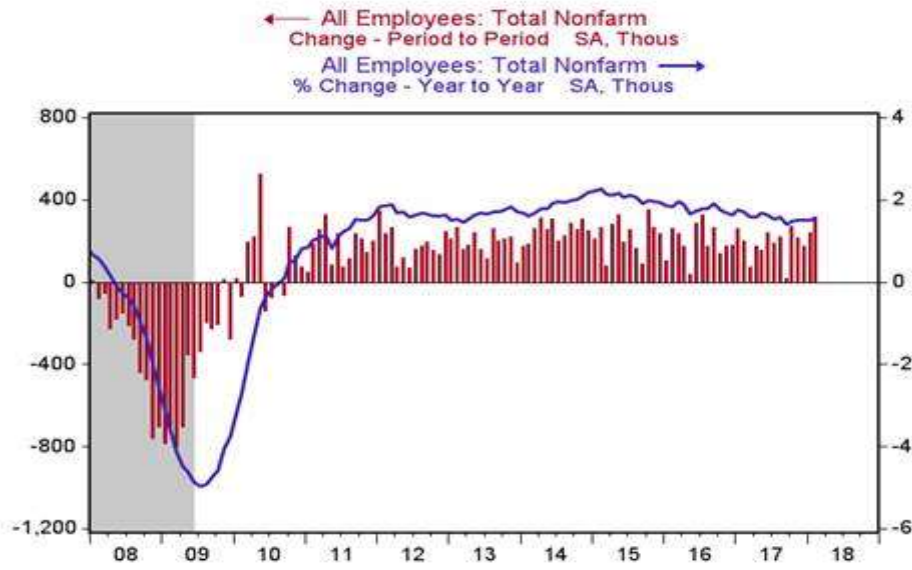
Aggregate hours worked, the earliest proxy of broader economic activity each month, bounced back nicely by 0.6% m/m after horrid winter conditions stalled activity and caused a 0.1% decline in this metric in January (Chart 6). The sturdy gains in hours worked, combined with average hourly earnings suggest that aggregate personal incomes rose at a fast pace in February, and coupled with lower withholding tax rates

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will boost personal consumption growth (Chart 7).

The Trump Administration’s tariffs on steel and aluminum will lift hiring in those sectors, but they only employ 203k persons. Industries relying on steel and aluminum facing higher input costs could cut back on some hiring and investment plans, but the robust economic momentum suggest that any impact will be negligible. (These industries are much larger than the steel and aluminum sectors. For example, the transportation equipment sector employs 1.7 million people.)

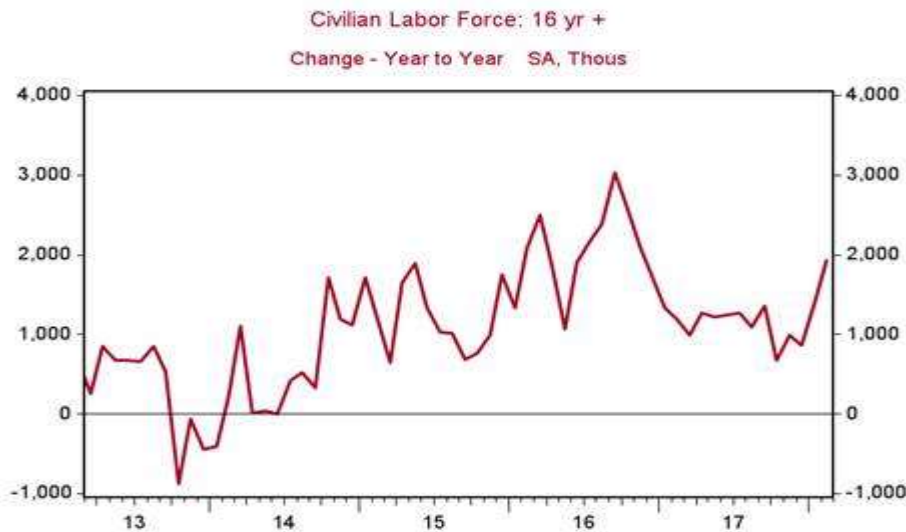
Chart 1: Change in Total Nonfarm Employment (m-o-m and y-o-y %) – Establishment Survey



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

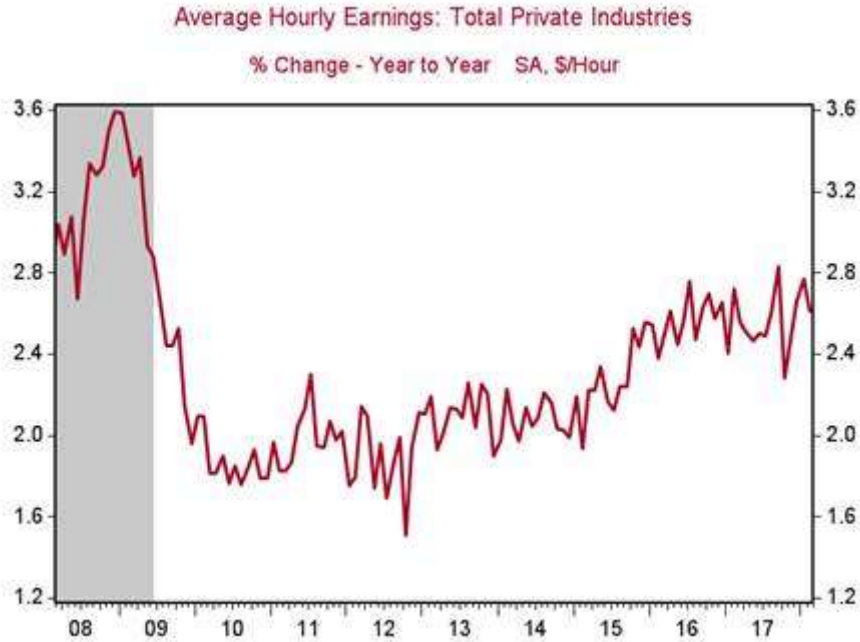
Chart 2: Civilian Labor Force (year-over-year)



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

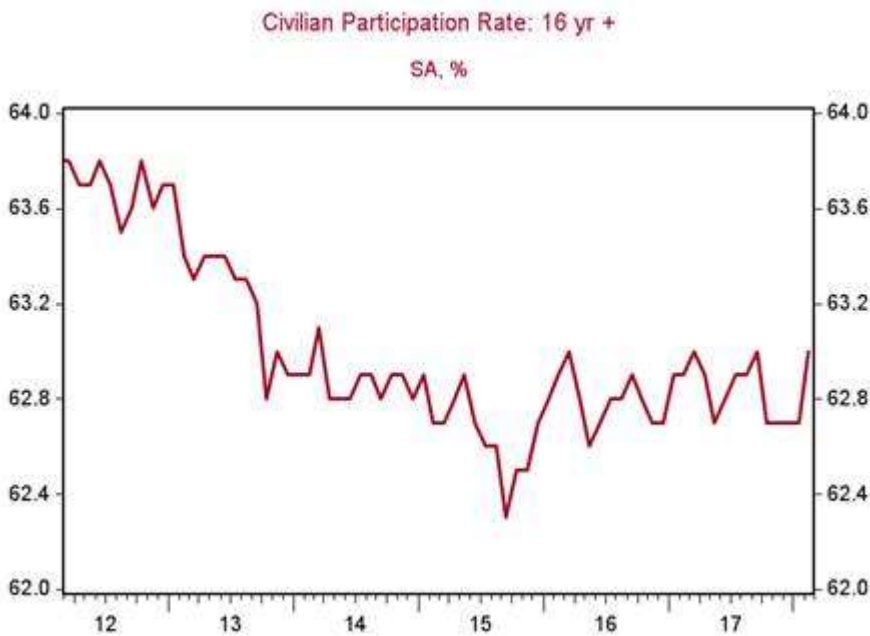
Chart 3: Average Hourly Earnings (year-over-year, %)



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 4: Civilian Labor Force Participation Rate



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

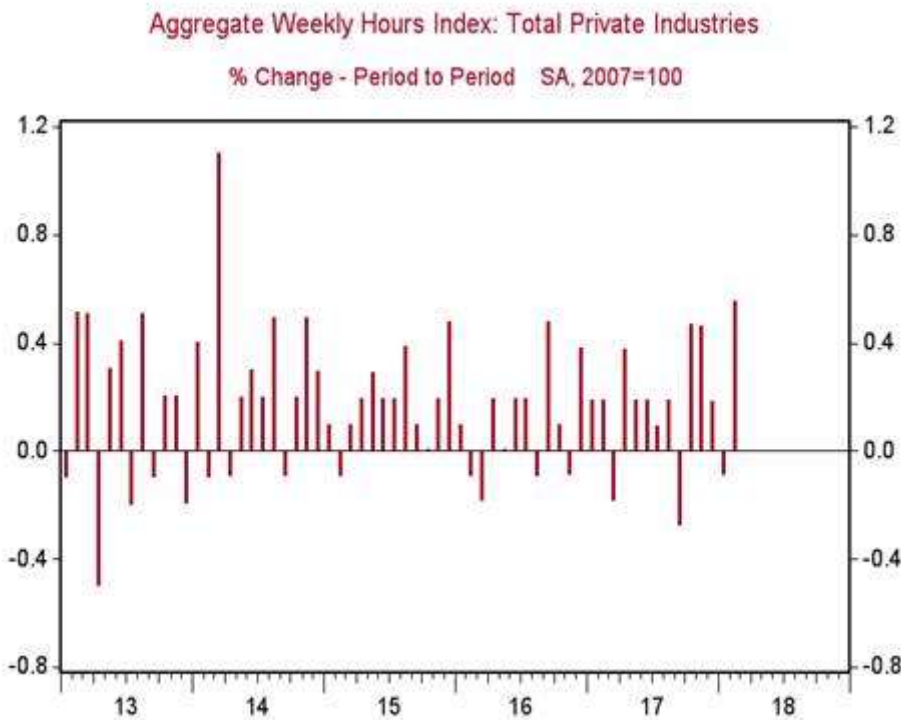
Chart 5: Goods-Producing Employment (month-over-month)



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 6: Aggregate Weekly Hours Index (month-over-month, %)



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 7: Aggregate Weekly Payrolls Index (year-over-year, %)



Source: Bureau of Labor Statistics/Haver Analytics

Note: Aggregate payrolls estimates are the product of estimates of average hourly earnings, average weekly hours, and employment. Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

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