

US: FEBRUARY ADP JOBS REPORT SHOWS OPTIMISM FEEDING THROUGH TO HIRING

***ADP/Moody's estimate that US private payrolls increased by 298k in February, suggesting that the BLS will report similarly strong gains in its monthly jobs report on Friday**

**Optimistic sentiment feeding through to hiring with small businesses, manufacturers and construction firms all increasing payrolls at a robust pace in recent months*

**With labor markets tightening, continued job gains of this magnitude will fuel fears of an overheating economy and force the Fed to hike more than currently expected*

ADP/Moody's estimate that US private payrolls increased by 298k in February, the largest increases since April 2014, following the strong 261k gain in January. It is noteworthy that the ADP in February tends to be a more accurate predictor of the monthly job gains in the BLS Employment Report, than it is for other months (see Chart 1).

The ADP report revealed some interesting trends. *Small businesses continued to ramp up their payrolls after sluggish hiring in the months preceding the elections.* The 104k jobs added is the largest since June 2016 and reflects the surge in optimism among small businesses in recent months (see Charts 2 and 3).

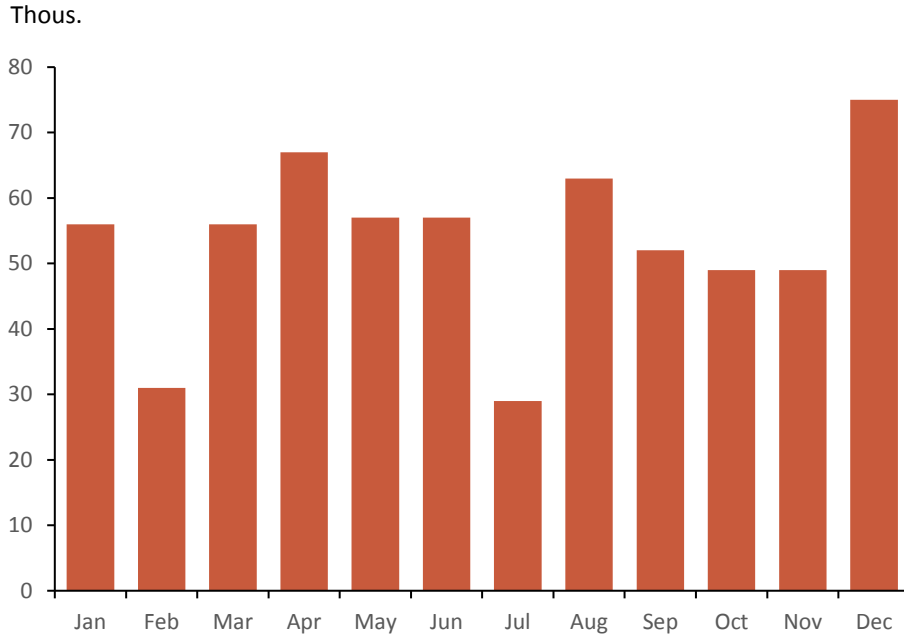
The goods-producing sector posted outsized gains, adding 106k jobs, the most in the history of this series (goes back to May 2001) due to strong hiring in both the manufacturing (+31k) and construction sectors (+66k) (see Chart 4). The service sector added a close-to-trend 193k jobs.

Manufacturing surveys at both the regional and national level have become very optimistic, and although this optimism has yet to convincingly feed through to "hard data" on factory production, orders and shipments, it seems to be having an effect on hiring (see Chart 5). The construction sector, which makes up a large share of small and medium sized businesses, are anticipating corporate tax reform, deregulation and increases in infrastructure spending.

The Fed is highly likely to hike in March, but what's next? The Fed will certainly acknowledge the strong job gains along with other data and soaring confidence. If job gains of this magnitude continue and wages tilt up and inflation pressures build, the Fed will be forced to hike more than expected in 2017-2018. Moreover, as we have noted, if pro-growth fiscal reforms are enacted, the Fed's policy adjustments would be accentuated (see "[Critical current issues facing the US in 2017](#)", January 4, 2016).

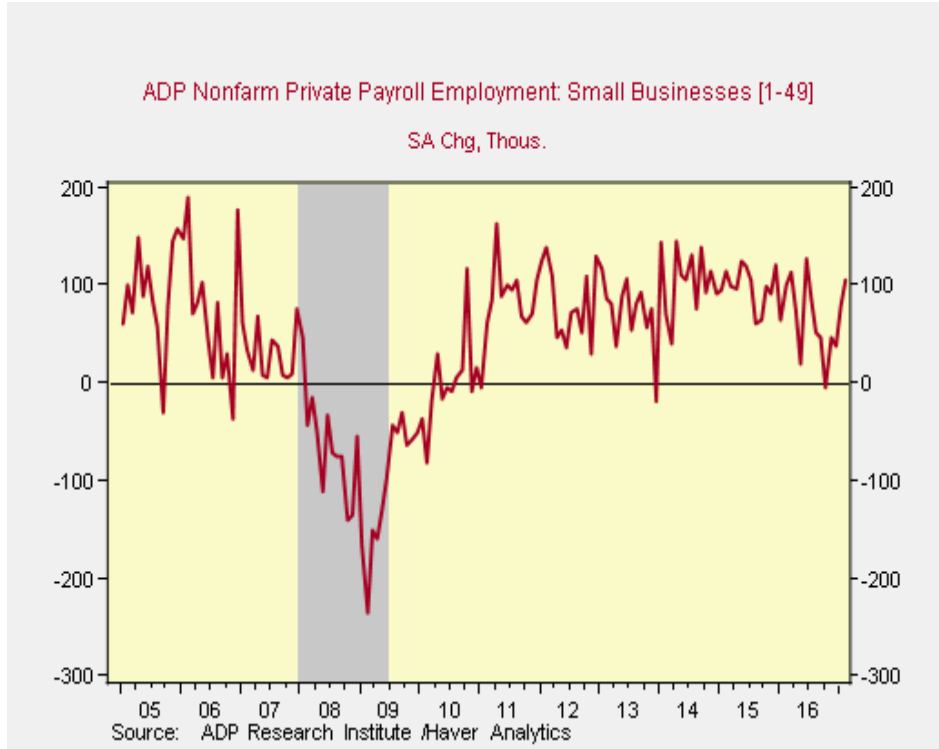
08 March 2017

Chart 1: Mean absolute difference between the first estimates of ADP and BLS private payroll measures (March 2010 – Present)



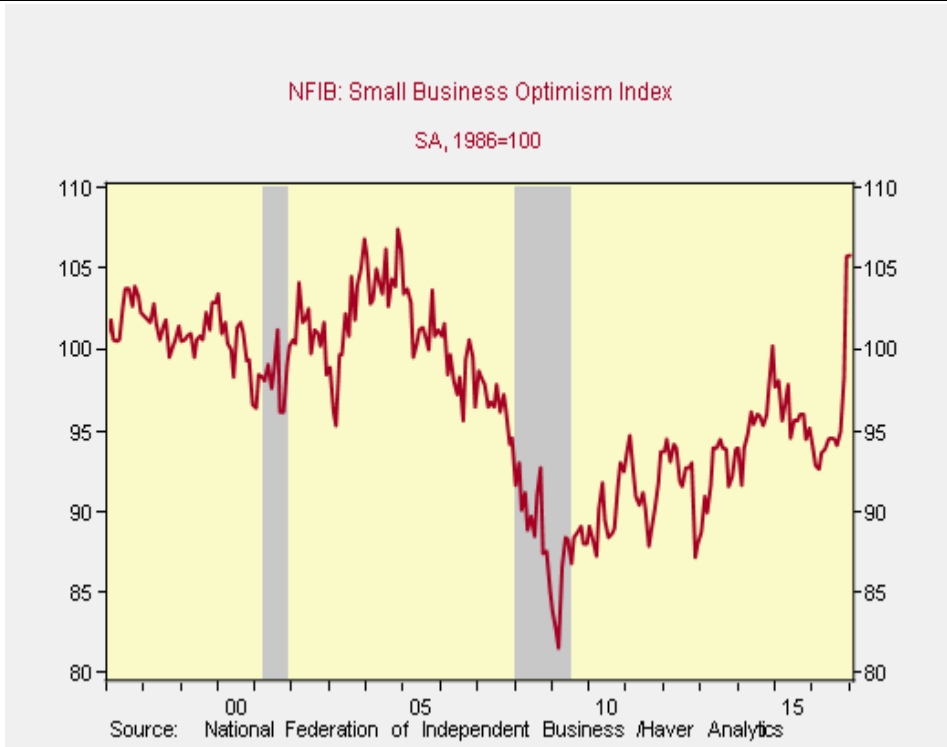
Source: Bloomberg, Bureau of Labor Statistics (BLS), ADP, Moody's Analytics and Berenberg Capital Markets

Chart 2: ADP Nonfarm Private Payroll Employment: Small Businesses



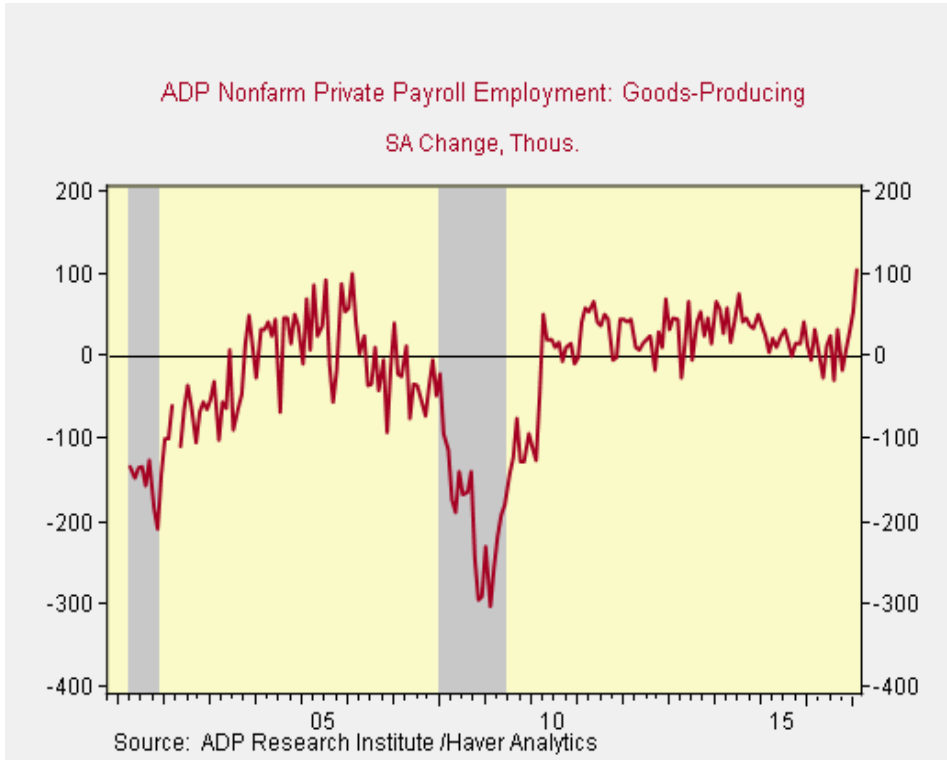
Source: Monthly data. Source: ADP and Haver Analytics

Chart 3: National Federation of Independent Business: Small Business Optimism Index



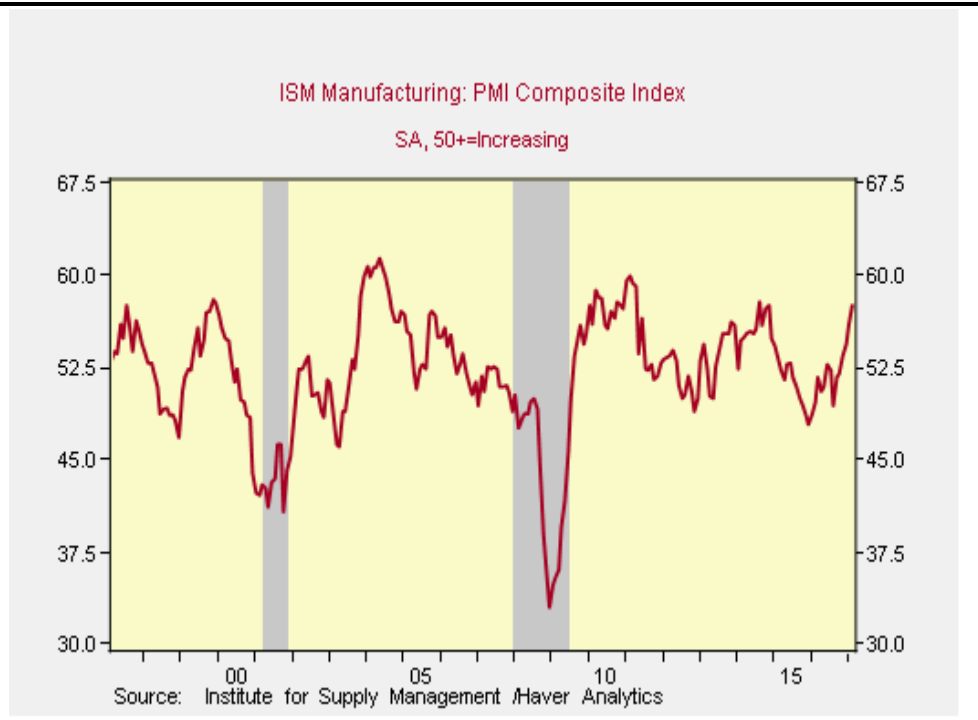
Source: Monthly data. Source: National Federation of Independent Business and Haver Analytics

Chart 4: ADP Nonfarm Private Payroll Employment: Goods-Producing



Source: Monthly data. Source: ADP and Haver Analytics

Chart 5: ISM Manufacturing: PMI Composite Index



Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

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