

## US: SOLID FEBRUARY JOBS REPORT

US establishments added 235k jobs in February, lowering the unemployment rate to 4.7% and increasing pay for their employees 0.2% m/m, lifting the yr/yr rise to 2.8% (see Chart 1). Aggregate hours worked, a key input to personal income, advanced 0.2% m/m – the same as the prior month – supporting sustained consumer spending in Q1.

The Household Survey in the Employment Report was strong: the unemployment rate fell 0.1pp to 4.7%, reflecting a 107k decline in unemployment and a 340k rise in the measured labor force (employment rose 447k, the largest gain since July). The labor force participation rate increased to 63%, an almost one year high, providing evidence of **individual's increased confidence** in job finding prospects.

This solid employment report keeps the Fed on track to hike rates at its March meeting, but adds no additional clues on the future path of policy. Two additional hikes in 2017 – in September and December - continue to seem most likely.

Average hourly earnings bounced back in February, after an anomalous drop off in January (see Chart 2). The broader trend continues to show a gradual improvement in average hourly earnings. But if job growth continues to exceed 200k, wages are likely to **accelerate, given the labor market's close proximity to full employment**. This would force the Fed to hike more than it currently projects in 2018-2019.

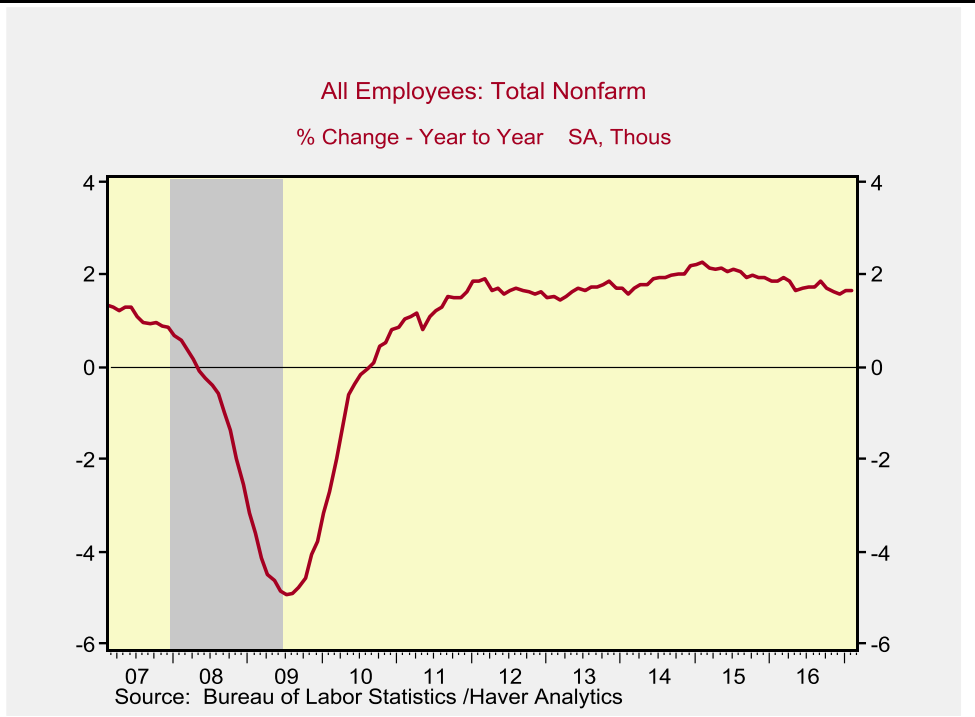
With the pace of layoffs near record lows, the goods sector has started to pick up hiring, adding 95k jobs in February, already more than the 64k jobs it added in all of 2016, a good indication that the sector is finally escaping its 2-year rut (see Chart 3). This is a key piece of evidence of sentiment feeding through to business decisions and the economy, as data on factory production, shipments and orders have remained soft. Firms are seemingly more comfortable increasing hiring in anticipation of policy changes compared to making significant long-term investment decisions.

The manufacturing sector added 28k jobs – the most since last January and the construction sector added 58k jobs, the most since March 2007. Both residential and nonresidential construction firms boosted hiring. Prospects for deregulation, lower corporate taxes and infrastructure spending are likely improving hiring in construction, but the warmer-than-usual weather in February probably prompted some construction firms to pull projects forward.

Service sector employment lost momentum in February, primarily due to the retail sector shedding 26k jobs. Other sectors such as leisure and hospitality showed trend-like gains, with the education and health sector boosting payrolls by an above-trend 62k.

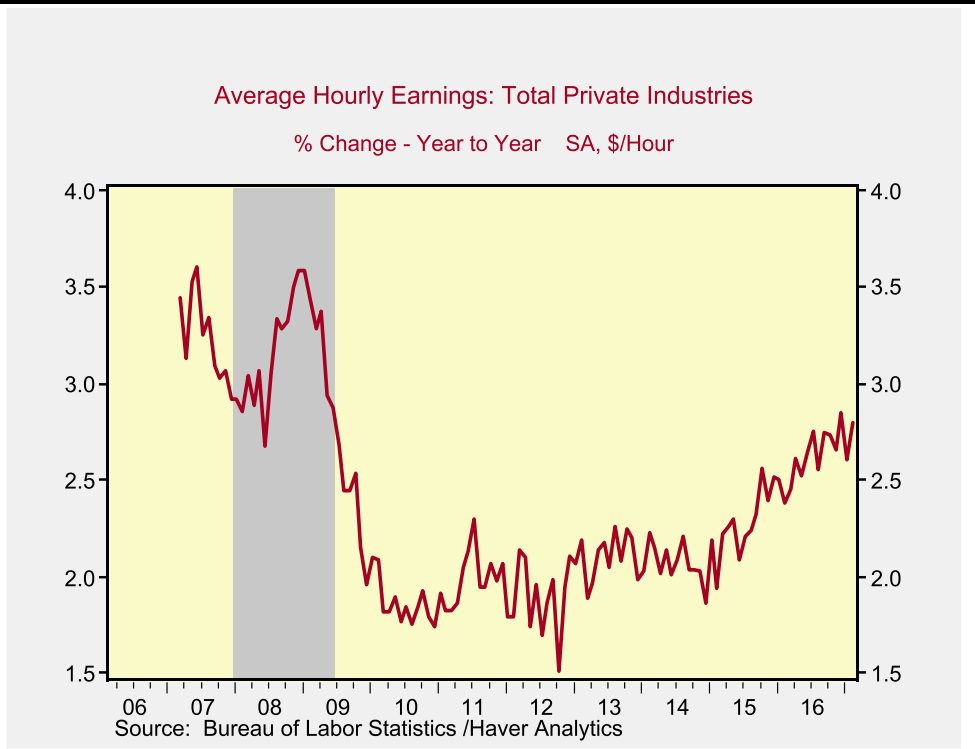
10 March 2017

Chart 1: All employees – total nonfarm (year-over-year, %)



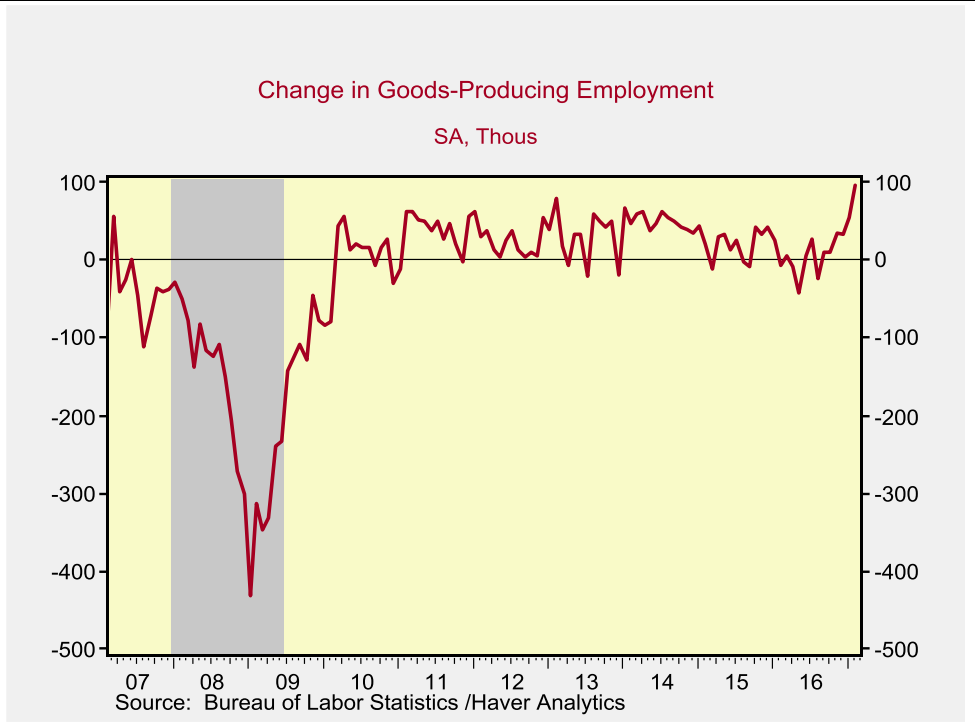
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 2: Average hourly earnings: total private industries (year-over-year, %)



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

Chart 3: Change in goods-producing employment (month-over-month)



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

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