WESTEND
ADVISORS

ECONOMIC ALERT

U.S. EMPLOYMENT SITUATION – FEB 2018

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Nonfarm Payrolls: +313,000 month-over-month (Cons: +205,000), +2.28 million year-over-year

Unemployment Rate: 4.1% (Cons: 4.0%), Unchanged month-over-month, -0.6 ppt year-over-year

Weekly Hours: 34.5 hours (Cons: 34.4 hours), +0.1 hours month-over-month, +0.1 hours year-over-year

Hourly Earnings: $26.75, +0.1% month-over-month (Cons: +0.2%), +2.6% year-over-year

Quick Take:

Private payrolls increased by 313,000 in February, which was well above economists' estimate. January and December payroll gains figures were revised up by 54,000 collectively. February's monthly payroll gain was the largest in 19 months. Outsized payroll gains in construction (+61,000), retail trade (+50,300), and professional and business services (+50,000) drove the large February payroll additions figure.

Payroll gains have totaled 727,000 over the past 3 months, more than any three month period in 2017. Additionally, the labor force expanded by 806,000 people in February, which was the largest increase since January 2003. As a result, the participation rate increased from 62.7% as of January to 63.0% last month, although the participation rate is up just 0.1 percentage point since February 2017. The prime-age participation rate, which only includes people between the ages of 25-54, increased 0.4 ppt in February to 82.2%, bringing the rate back to levels last seen in 2010 (see chart below). As any remaining labor market slack diminishes, we expect monthly job gains to be moderate as the U.S. approaches full employment.

Since the middle of 2017, transitory factors such as hurricanes, winter weather, and tax reform have caused increased variability in the monthly payrolls data and revisions. In February, the large monthly payroll increase was partially driven by a rebound in hiring after the adverse weather in January.

The unemployment rate has fallen 0.6 ppt since February 2017 but has remained steady at 4.1% over the last five months, which we view as a sign that some labor market measures are reaching their cyclical limits.

Average hourly earnings growth came in lower-than-expected in February, due in part to a rebound in hours worked as fewer winter-related effects prevented people from working. In January, a lower level of hours worked contributed to what appeared to be accelerating wage growth. On a year-over-year basis, average hourly earnings for all employees rose 2.6% in February, down from 2.8% growth in January. On a 3-month annualized basis, average hourly earnings were up 3.2% as of February. Moving forward, we continue to expect the tightening labor market to put moderate upward pressure on wage growth as qualified workers become harder to find.

Source: Bureau of Labor Statistics, WestEnd Advisors