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February Employment Report: A Strong Headline Number On Top Of Some Weak Details

- › Nonfarm employment rose by 311,000 jobs in February; prior estimates for December/January were revised down by 34,000 jobs
- › Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings rose by 0.2 percent (up 7.2 percent year-on-year)
- › The unemployment rate rose to 3.6 percent in February (3.571 percent, unrounded); the broader U6 measure rose to 6.8 percent

Total nonfarm employment rose by 311,000 jobs in February, besting our above-consensus forecast of 266,000 jobs, with private sector payrolls up by 265,000 jobs and public sector payrolls up by 46,000 jobs. While private sector job growth was in line with our above-consensus forecast of an increase of 259,000 jobs, public sector job growth came in well above our expectations, mainly reflecting growth in the education segment of local governments. Prior estimates of job growth in December and January were revised down by a net 34,000 jobs. While we expected a harsher markdown, the details merit attention, with net private sector job growth for the two-month period revised down by 94,000 jobs while net public sector job growth was revised up by 60,000 jobs. As we discussed in this week's *Economic Preview*, atypically mild winter weather (proving once again that it's always cold in the wintertime, unless of course it isn't) bolstered February job growth, the flip side of which is that some of this will have come at the expense of March job growth. Job growth was notably less broad based across the private sector in February, and should this persist, it will be a troubling sign as to the health of the broader economy. In addition to the downward revision to private sector job growth, average weekly hours for January were revised lower, both of which contributed to a downward revision in the prior estimate of private sector wage and salary earnings which will, in turn, almost surely lead to a downward revision in the BEA's estimate of January personal income growth. For February, average weekly hours fell to 34.5 percent, as we expected, while average hourly earnings rose by just 0.2 percent, a smaller gain than we and the consensus expected, yielding a paltry 0.15 percent gain in private sector wage and salary earnings. The unemployment rate rose to 3.6 percent, reflecting a further increase in the labor force participation rate.

The not seasonally adjusted data show construction payrolls rose by 64,000 jobs, an unusually large increase for the month of February, which followed a smaller than normal seasonal decline in January. Keep in mind that, though new home sales have fallen sharply, builders are still working off sizable backlogs of unfilled orders, which has preserved

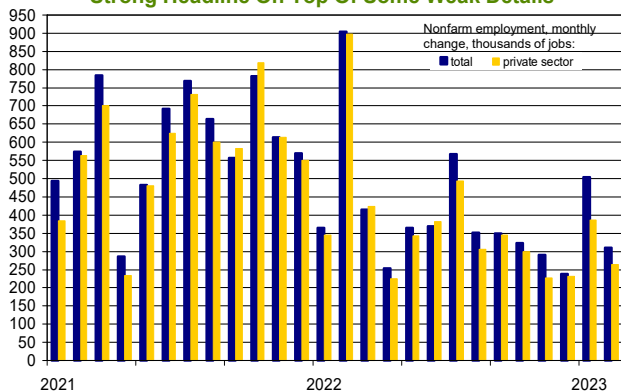
construction employment, and February's favorable weather enabled work to continue to a greater extent than is typically the case. Again, the logical follow though is that the March increase in construction payrolls will be much smaller than normal, which will be treated harshly by seasonal adjustment. February's atypically mild weather also contributed to the jump in leisure and hospitality services payrolls, up by 206,000 jobs on a not seasonally adjusted basis, much larger than the normal February increase. This yielded a seasonally adjusted increase of 105,000 jobs, but we'll make the same point we made for construction payrolls, which is that the (unadjusted) March increase in leisure and hospitality services payrolls is likely to be atypically small, which will be punished in the seasonally adjusted data. February also saw smaller than normal layoffs in retail trade, so what in the raw data is a decline of 48,000 jobs is shown as an increase of 50,000 jobs in the seasonally adjusted data.

The one-month hiring diffusion index, a gauge of the breadth of hiring across private sector industry groups, fell from 68.0 percent in January to 56.0 percent in February, the lowest print since April 2020. We've always seen more widely dispersed job growth as a sign of any expansion's staying power, so the sharply narrower hiring base in February is concerning and this bears watching in the months ahead. To that point, the manufacturing, transportation/warehousing, information services, and finance industry groups all saw payrolls decline in February.

The 7.2 percent year-on-year increase in aggregate private sector wage and salary earnings is the smallest such increase since March 2021. Do not discount the role of the drop in average weekly hours in what has been a marked deceleration in growth in aggregate labor earnings, and don't be surprised to see further declines in average weekly hours worked as labor demand ebbs. It is worth noting that the number of those working part-time due to slack business conditions rose in February, a number that we think will push higher in the months ahead. A month ago, we stated that we thought the January employment report vastly overstated the underlying strength of the U.S. economy, and the details of the February employment report align with our view.



Strong Headline On Top Of Some Weak Details



Part-Time For Economic Reasons

three-month moving averages, millions of people

