ECONOMIC UPDATE
REGIONS
March 8, 2024

February Employment Report: What A Difference A Month Makes . . .

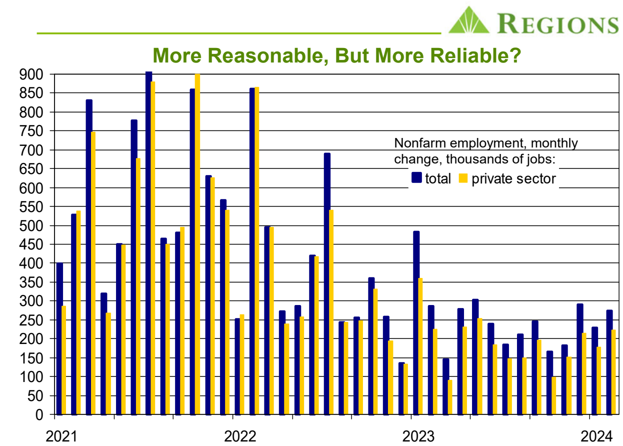
- Nonfarm employment rose by 275,000 jobs in February; prior estimates for December and January were revised down by a net 167,000 jobs
- Average hourly earnings rose by 0.1 percent, while aggregate private sector earnings rose by 0.6 percent (up 5.3 percent year-on-year)
- The unemployment rate rose to 3.9 percent in February (3.897 percent, unrounded); the broader U6 measure rose to 7.3 percent

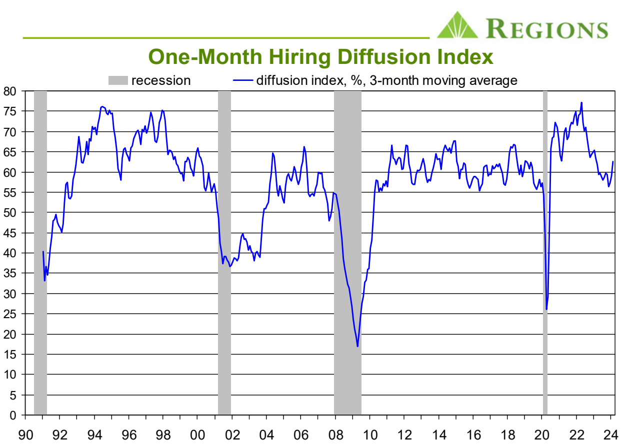
Total nonfarm employment rose by 275,000 jobs in February, topping our above-consensus forecast of 249,000 jobs, with private sector payrolls up by 223,000 jobs and public sector payrolls up by 52,000 jobs. Perhaps the bigger story in the February employment report, however, is the sharp downward revision to the initial estimate of January job growth, which we noted at the time was implausibly large. Revisions now peg January job growth at 229,000 jobs, just a touch smaller than the initial estimate showing an increase of 353,000 jobs, more than accounted for by a downward revision to the initial estimate of private sector job growth. Private sector payrolls are now reported to have risen by 177,000 jobs in January, compared to the initial estimate of an increase of 317,000 jobs. Recall that the initial collection rate to the January establishment survey was only 56.0 percent, the lowest January rate since 2002, which we noted opened the door for significant revision to the initial estimates of January payrolls, hours, and earnings. While the collection rate for the February establishment survey rose to 66.9 percent, that would still be considered low by pre-pandemic standards. The other headline-grabbing detail in the February data is that the unemployment rate rose to 3.9 percent, the highest rate since January 2022. The jump in the jobless rate reflects a decline in the level of household employment, which more than offset a modest increase in the size of the labor force. Far be it from us to contradict a convenient, dramatic, "sky is falling" narrative, but we will note that the decline in household employment is more than entirely accounted for by a reported decline amongst those aged 16-to-24 years old (down by 466,000 persons), while employment amongst the prime working age cohort (aged 25-to-54) increased further in February. Ask yourself which is more plausible, not to mention more relevant.

The February employment report also brings the reversal of what were some meaningful weather effects in the January report. Recall that January saw more people either working part-time or not working at all due to bad weather than in any January since 1982, which weighed on the average weekly hours metric in the payroll data, with average weekly hours falling to 34.1 hours. That decline in turn helped push up average hourly earnings, which was originally reported to have risen by 0.6 percent in January. Revisions to the January data show average weekly hours did not fall quite as much, with the average workweek now put at 34.2 hours. This led to a modest downward revision to the increase in average hourly earnings in January. At the same time, with hours worked rebounding in February, average hourly earnings rose by just 0.1 percent. As we routinely note, however, the far more relevant metric, both to firms managing total labor costs and to growth in personal income, is aggregate wage and salary earnings, which rose 0.6 percent in February, leaving them up 5.3 percent year-on-year, still outpacing inflation even though growth is moderating. Along those same lines, there were more people not at work due to bad weather than in any February since 2010 and more people working part-time due to bad weather than in any February since 2012, which likely weighed on the weekly hours worked metric in the establishment survey. To the extent that is the case, then average hourly earnings were closer to flat than to being up by 0.1 percent. One thing we also think bears noting is that the number of people working part-time due to economic reasons, including slack business conditions, actually fell in February, at odds with concerns raised by the higher jobless rate.

Job growth remained broadly based across private sector industry groups in February. Kind of. The one-month hiring diffusion index, a gauge of the breadth of private sector job growth, rose to 62.6 percent in February. At the same time, however, the health care & social assistance industry group remains far and away the largest driver of private sector job growth, with payrolls in this industry group rising by 90,700 jobs in February. Keep in mind, however, that the diffusion index measures the breadth of hiring, not the intensity of hiring. The data are consistent with the premise of smaller net monthly increases in hiring across private sector industry groups, the outlier being health care, but this premise is consistent with other labor market data.

We'll end by making the same point we've made for some time now. It is clear that the pace of hiring is cooling, which was to have been expected. There is, however, nothing in the data, including the higher jobless rate, that tells us the labor market is on the verge of rolling over.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com