ECONOMIC UPDATE

REGIONS

March 7, 2025

February Employment Report: Not Great, Not Terrible, But Not All That Informative

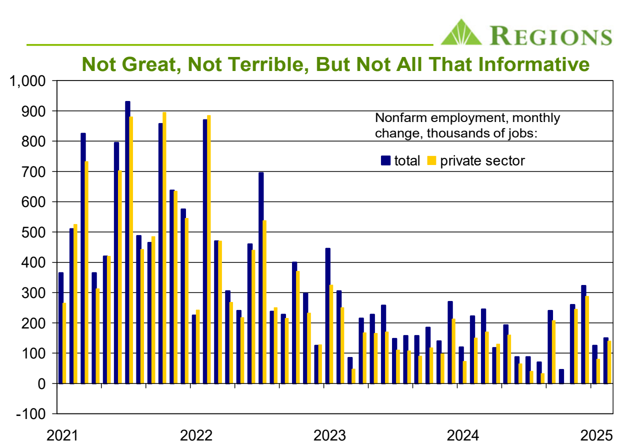
- Nonfarm employment rose by 151,000 jobs in February; prior estimates for December and January were revised down by a net 2,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.4 percent (up 4.6 percent year-on-year)
- The unemployment rate rose to 4.1 percent in February (4.136 percent, unrounded); the broader U6 measure rose to 8.0 percent

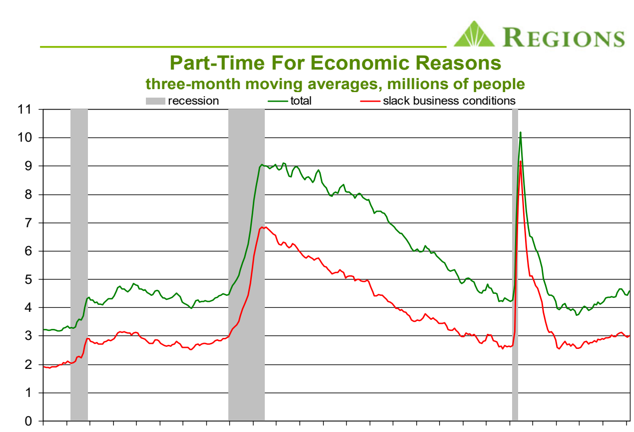
In a sense, the February employment report was born to lose; a strong headline job growth number would have been dismissed as the calm before the (layoff) storm, a weak headline job growth number would have signaled a rapid erosion in underlying conditions. As it turns out, the headline job growth print was pretty much right down the middle. Total nonfarm payrolls rose by 151,000 jobs, below what we (192,000) jobs and the consensus (160,000 jobs) anticipated, but better than the more dismal forecasts, some of which anticipated declining payrolls. Still, though, it does seem as though this may be as good as it gets for some time, as the March employment report will more fully capture the cutbacks in federal government payrolls on top of whatever impacts the uncertain and volatile policy outlook may be having on firms' decisions on hiring and capital spending. As it is, the data show federal government payrolls fell by 10,000 jobs in February, but that number will be considerably higher in the March data. As with January, there were clear impacts of another bout of atypically harsh winter weather, including diminished hours worked. At the same time, however, job growth was much more broadly dispersed across the private sector than was the case in January. While that would seem at odds with the premise of rapidly deteriorating conditions in the broader economy, that more people reported working part-time due to slack business conditions was a primary driver behind the broader U6 measure, which accounts for both unemployment and underemployment, jumping to 8.0 percent from 7.5 percent in January. Perhaps the best thing that can be said about the February employment report is that it at least did not confirm what had been the worst fears about the economy, which isn't nothing, but it is also fair to say that the February employment report is already being forgotten as the focus has quickly turned to what the March report may bring.

The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 58.4 percent in February from 52.4 percent in January. Perhaps more noteworthy is that hiring in the manufacturing sector was more broadly based than in any month since December 2022 while total manufacturing payrolls rose by 10,000 jobs. This comports with other data – the ISM Manufacturing Index, orders for core capital goods – showing improving conditions in the factory sector over the past few months. At the same time, though, the question remains whether, or to what extent, this improvement reflects firms pulling orders and production forward to avoid higher tariffs in 2025, as opposed to reflecting the early stages of an enduring rebound. It is too soon to know for sure, but, at this point, we fear it is the former more than the latter.

The household survey data show declines in both the size of the labor force and the level of household employment, with the net result being the modest increase in the unemployment rate despite a lower labor force participation rate. Still, while the overall participation rate fell to 62.4 percent from 62.6 percent in January, the rate amongst the "prime age" cohort, i.e., those between twenty-five and fifty-four years old, held at 83.5 percent in February, as it was a sharp decline amongst those fifty-five and older that pulled down the overall participation rate. Whether, or to what extent, the decline amongst those fifty-five and above, reflects those in this cohort who accepted federal government buyouts cannot be determined from the data, but it is a possibility. There are three other elements of the household survey data worth noting. First, there were 1.309 million people who worked only part-time rather than their normal full-time hours due to adverse weather, more than in January, while an additional 404,000 people did not work at all due to adverse weather. Though these numbers do not directly map into the establishment survey data, we do think this helps account for why average weekly hours remained stuck at 34.1 hours rather than ticking higher as we expected. Second, there were 1.434 million people not at work due to illness in February, the most in any month since December 2022, and illness could help account for the drop in participation last month. Third, there was a jump in the number of those working part-time due to slack business conditions in February. While not dismissing this, we'll also note that this metric is highly volatile, which is why we show the three-month moving average in our chart below. Clearly, though, this will be a key metric to track in the months ahead.

The February employment report was neither as strong as some expected nor as weak as some feared. Given the expectations of a much weaker March report, the February report will have a short shelf life.





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