Scott Anderson, Ph.D.
Chief Economist
415.765.8020

Instant Analysis of Today's Employment Report for February

Job Creation Exceeded Expectations in February; +295K vs. Consensus Exp. +235K
Unemployment Rate Drops two tenths to 5.5%
December and January Job Numbers Revised Down a Net -18K
Avg. Hourly Earnings up a Modest 0.1% (+2.0% y-o-y) Labor Force Participation Slips
Job Growth in All Major Sectors except Mining (-8K)
Business Services (+51K), Ed & Health (+54K), Leisure & Hospitality (+66K)
Trade (+62K), Manufacturing (+8K), and Construction (+29K)
February's Employment Report Keeps Fed on June 2015 Rate Hike Course
Market Reaction to Report; USD Rises; S&P 500 -0.3%; 10-Yr Treasury Yield +9 bps 2.2%

Bad winter weather and the West Coast port slowdown wasn't enough to shake the improving momentum in the U.S. labor market- another sign of the strength and resilience of U.S. labor demand today. Once again the monthly jobs report exceeds economists' consensus expectations. The U.S. economy created another +295K net non-farm jobs in February, though the last two months of gains were revised down a modest -18K jobs. The labor market is clearly on a roll despite headwinds from abroad and large swings in the dollar and global oil prices. We have had twelve consecutive months now of over +200K a month net non-farm job gains. Over the last three months alone the net non-farm job gains have averaged +288K a month.

The U.S. unemployment rate improved by two-tenths of a percent in February to 5.5 percent. This should give the FOMC some more ammunition to justify a June rate hike. On a less positive note, the labor force participation rate slipped to 62.8% from 62.9% in January. The employment ratio held at 59.3%, and the details of the household employment survey were less encouraging- household employment up only +96K in February and the labor force contracted by -178K people.

Wage gains also remained subdued. Average hourly earnings released with this report increased a less than expected 0.1% in February after jumping 0.5% in January. The year-on-year growth rate for average hourly earnings fell back to 2.0% from 2.2%. While this data does not show any real sign of wage pressure emerging, other reports like the beige book report and Employment Cost Index are painting a different story. With unemployment already at 5.5%, it will only be a matter of time before wages start to rise at a somewhat swifter pace.

By sector, we saw solid job growth for all major sectors excluding mining, which lost -8K jobs. Leisure and hospitality led the way adding a net (+66K) jobs, trade (+62K), education and health (+54K), business services (+51K), construction (+29K), finance (+10K), manufacturing (+8K), information (+7K). The breadth of these job gains across sectors suggest a sustainable and vibrant labor market recovery remains in place in the first quarter of 2015.

Bottom-line, we received another robust employment report this month that demonstrates the resilience and breadth of the current labor market recovery. The report should further ease fears at the Fed that the global downturn and sharp drop in oil prices are materially disrupting the U.S. economic outlook. The February jobs report keeps the FOMC firmly on course for a June 2015 liftoff date for the Fed funds target rate. The report also fits in well with our 3.0 percent growth outlook for the U.S. economy this year. If there was any disappointment it was with the pullback in average hourly earnings growth that at least through February remains subdued. The extent of labor market improvement over the past year should help the Fed look past a temporary drop in inflation and keep their eye on gradually normalizing interest rates. Market reacted as one would expect. S&P 500 futures indicated opening about 0.3% lower, the 10-year Treasury yields

were trading about 9 basis points higher to 2.2 percent, and the US dollar was strengthening against most major currencies.