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US Non-farm payrolls: Far from an urgent cry for rate cuts

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Employment change (thousands, unless otherwise noted)	Feb 24	Jan 24	Dec 23	Nov 23	Oct 23
Unemployment rate (%)	3.9	3.7	3.7	3.7	3.8
Avg. hrly earn all (Monthly % Chg)	0.1%	0.5%	0.3%	0.4%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.4%	-0.1%	0.3%	0.7%	0.0%
Nonfarm employment	275	229	290	182	165
Total private	223	177	214	152	98
Goods-producing	19	24	33	36	-10
Construction	23	19	18	15	22
Manufacturing	-4	8	12	25	-31
Priv. Serv providing	204	153	181	116	108
Wholesale trade	-1	-3	7	7	12
Retail trade	19	15	32	-43	1
Transp. & Warehousing	20	-29	-18	-11	-9
Information	2	6	13	17	-26
Financial	1	-1	6	4	0
Business services	9	40	13	10	-5
Temporary help	-15	-1	-21	-14	-23
Education, health	85	107	84	110	77
Leisure, hospitality	58	8	41	10	57
Government	52	52	76	30	67
Federal Government	9	12	9	-1	8

Source: Haver Analytics

- Downward revisions from prior months took some of the wind out of the sails of the labor market, but with job gains of 275K compared to expectations of 200K it remains on strong footing. Over the previous two months, there were net revisions of -167K, erasing much of the heat from the January report. The unemployment rate rose two notches to 3.9%, whereas consensus expected no change, and the part rate continued to stand at 62.5%. Wage growth appeared to cool sharply this month with growth of just 0.1% compared to growth of 0.6% the month prior, but this mostly reflects unwinding distortions from bad weather in last month's report. Underlying wage growth is likely still firm as implied by other wage data. Overall, the Fed is likely to view this as a fairly mixed report. Downward revisions mean the labor market slightly less tight than previous believed and the volatile household survey showed a two-notch increase in unemployment, but the underlying trend is not one of clear weakness. The downward revisions to employment amount to just 0.1% of the overall level of employment. Labor supply and employment growth remain steady, with job gains averaging 265K over the past three months. The main message from today's report, while disappointing relative to expectations, it is far from an urgent cry for rate cuts. We expect the Fed to ease policy in the second half of the year.

- The February report provided move evidence for a firming trend in more cyclically sensitive sectors and a broadening of job growth. Job growth outside of healthcare and government accounted for about half of employment gains much of the firming in job growth over the past three months. This strength was mostly concentrated in services, with overall service job gains reaching their fastest pace (204K) since May 2023.
- Wage growth was soft in the month, growing at just 0.1% compared to 0.5% in January but this mostly reflects the unwinding of distortions from bad weather in the previous month. Average hourly wages are backed out from total hours and the average hours worked per week normalized to 34.3 after dropping a notch in the prior month. The Fed however does not put much weight on wage numbers from the payroll survey put rather focus on the compositionally adjusted ECI numbers and the Atlanta Wage Growth Tracker.
- The household survey showed job losses of 184K in the month and three month average of 299K. But the January number is distorted because of how the survey manages new population estimates. Employment numbers in the household survey are volatile but certainly they are not looking their best in recent months. The rise in the unemployment rate will warrant attention but the overall level of the unemployment rate is still fairly in line with a balanced labor market. The silver lining in the report and what the Fed will likely be pleased with is the labor supply picture: the prime-age participation rate continues to remain very elevated rising back to a multi-decade high of 83.5% in February. With participation remaining sturdy at high levels, the Fed is likely to increasingly view some part of this rise as permanent and reflective of a stronger underlying trend of prime-age participation or a higher level of labor input into the economy. A strong level of labor input means the economy is capable for growing faster without stoking as much inflation.

Implications & actions

Re: Economic forecast — Don't be overly focused on the revisions to downward revisions because they are tiny in the grand scheme of the things. The labor market remains solid and will support solid consumption in 24Q1 and not force the Fed to see the need to rush to easing. We expect the Fed will ease policy in the second half of 2024.

Re: Markets — Bond yields and the broad dollar fell after the release and have sustained the declines so far likely due to the downward revisions and tick up in the unemployment rate.