Payroll Data for February

Summary

The economy added 242,000 jobs in February rebounding from January. The increase was widespread throughout the economy except mining and manufacturing. The December and January numbers were revised up by 30,000. The unemployment rate stayed at 4.90 percent. Wage gains dipped 0.1 percent or 3 cents. Labor participation rate and labor force rose.

Analysis

The fear of a recession was greatly exaggerated. Janet Yellen is breathing a sigh of relief. The jobless rate at 4.9 percent remained at near full employment. Both labor participation rate and the labor force rose demonstrating that there is some optimism among job seekers. However, aggregate hours worked, a good proxy for economic growth, dipped 0.4 percent indicating that the overall economic growth will remain soft. Weekly hours worked fell as well.

The jobless rate at 4.9 percent remained at near full employment. The good news is that both labor participation rate and the labor force rose demonstrating that there is some optimism among job seekers. However, aggregate hours worked, a good proxy for economic growth, dipped 0.4 percent indicating that the overall economic growth will remain soft. Weekly hours worked fell as well.

A missing piece is the low wage inflation. After a substantial rise of 0.3 percent in January, the average hourly earnings fell. As the economy marches upward toward full employment, the wage puzzle will hopefully fall in place. The labor market, especially in skilled category, continues to tighten forcing employers to hike wages. The latest Employment Cost Index rose 0.6 percent after rising in a narrow range of 0.4-0.5 percent. Bonuses and benefit costs have been rising at a faster pace than wages. All indications are that wage gains will accelerate in coming months.

The U.S. job market is the lone ranger in the midst of a slowing global economy. However, the job market still faces hurdles. The strong dollar and the tepid economy overseas hurt exports. The dollar’s strength has been a major headwind for the economy equivalent to a 0.5 percentage point hike in the interest rate. Manufacturers are having to cede market share to foreign rivals benefitting from cheap currency. The plunge in the price of oil cut capital spending related to exploration and production reducing energy-related work.

A hike in the interest rate in June by the FOMC is back on the front burner. Still the global economy including the U.S. is not as healthy as thought late in 2015. Two instead of four increases are likely this year. The lingering doubts about wage gains is a possible fly in the ointment.

The stronger dollar will hold down inflation giving more time to the Fed before raising the interest rate. The anemic rate of economic growth in Europe and the growing concern about a possible deflation there are other considerations. Uncertainties emanating from Asia including China are also important factors.