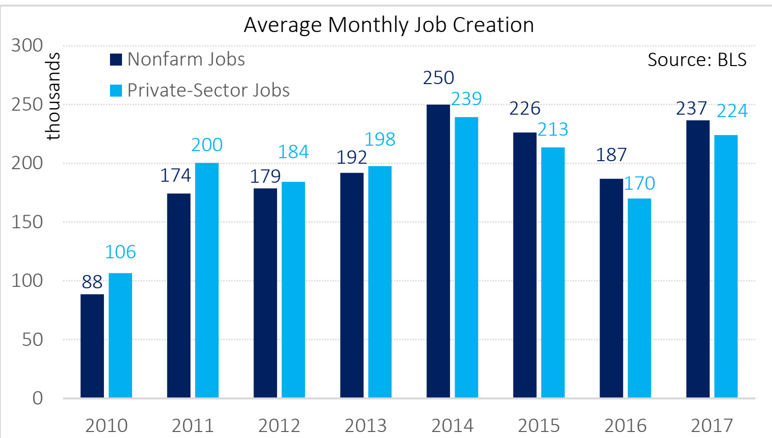
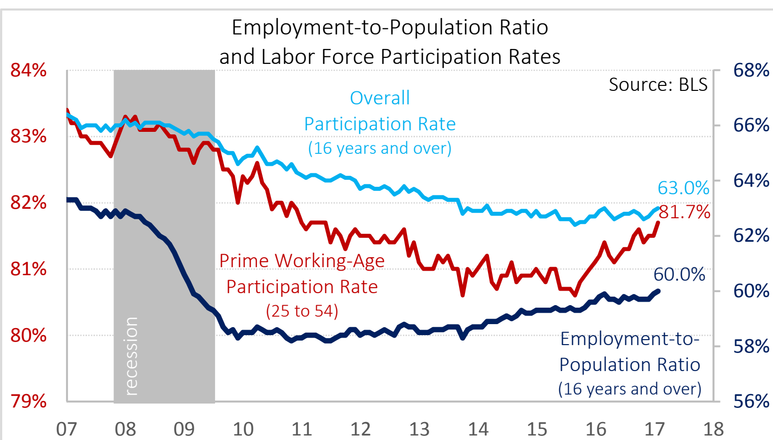
March 10, 2017

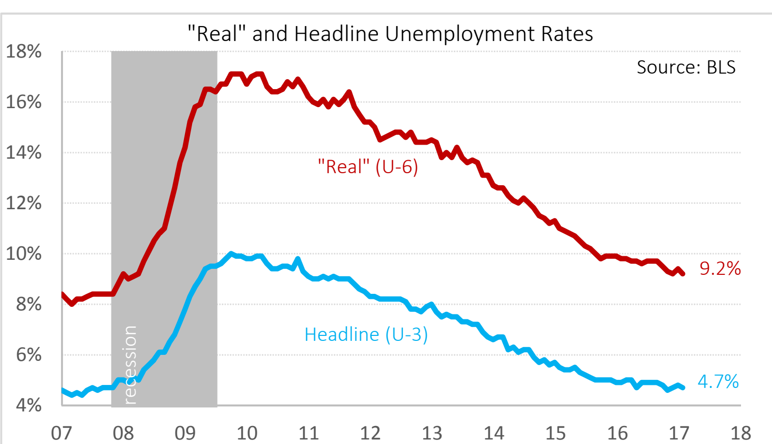
February 2017 Jobs Review

Jobs Review Snapshot

- In February, 235,000 nonfarm jobs were added. This exceeded expectations for a second month in a row.
- The employment-to-population ratio reached 60%; the last time it was 60% or more was February 2009.
- JEC attributes the improved employment situation in part to improved expectations of economic growth.







Details

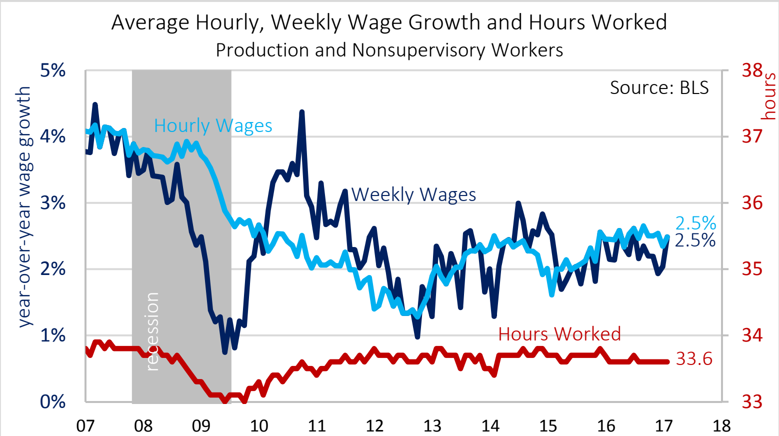
Bureau of Labor Statistics (BLS) reports a 235,000 gain in nonfarm payroll jobs, of which 227,000 were in the private sector. The largest job gains came from education and health services (+62,000), construction (+58,000), professional and business services (+37,000), and manufacturing (+28,000). Job losses were recorded in the retail trade (-26,000), motor vehicles/parts manufacturing (-3,500), and utilities (-1,000). The government sector added 8,000 jobs.

The employment-to-population ratio rose from 59.9% to 60% in February. This was the first time since February 2009 that this measure was at or above 60%. The overall labor force participation rate (LFPR) increased from 62.9% to 63.0%.[1] The prime working-age (25 to 54) labor force participation rate rose from 81.5% to 81.7%. During the previous business cycle's expansion period, it averaged 83%. Applying the previous expansion's average LFPR to the current prime working-age population and comparing it to the current prime working-age labor force suggests there could be over 1.7 million more workers.

The headline unemployment rate (U-3) decreased from 4.8% to 4.7%, but because its significance depends on a stable LFPR, the U-3's relevance has diminished since the last recession. JEC looks to the wider measure, the "real" unemployment rate (U-6),[2] as a better gauge. In February, it decreased from 9.4% to 9.2%. Its overall level indicates labor market slack remains.

Average hourly earnings (AHE) of all private-industry workers are 2.8% higher than last year, while average weekly earnings (AWE) are 2.5% higher.[3] This difference implies that the average hours worked of all employees has decreased.

The AHE and AWE of production and nonsupervisory workers both increased from last year by 2.5%,



indicating that average hours worked were unchanged since last year. JEC prefers these workers' AHE/AWE measures as they better represent the average worker's condition.[4] During the previous expansion, the AHE and AWE of production and nonsupervisory workers each increased an average of 3% per year, while averaging only 2.1% and 2.4%, respectively, during the current expansion. However, wage growth has accelerated somewhat since late 2015.

February 2017 Jobs Review Sources: BLS, Bloomberg Econoday	**January** Original	**January** Revised	**February** Forecast	**February** Actual
Establishment Survey				
Nonfarm Payrolls Change	227,000	238,000	200,000	**235,000**
Private Payrolls Change	237,000	221,000	200,000	**227,000**
Average Hourly Earnings: All Employees (Month-to-Month % Chg.)	0.1%	0.2%	0.3%	**0.2%**
Household Survey				
Unemployment Rate (U-3)	4.8%	--	4.7%	**4.7%**
Change in Number of Unemployed	106,000	--	--	**-107,000**
Change in Labor Force	76,000	--	--	**340,000**
"Real" Unemployment Rate (U-6)	9.4%	--	--	**9.2%**
Labor Force Participation Rate	62.9%	--	--	**63.0%**
16 to 64 years of age	73.0%	--	--	**73.2%**
25 to 54 years of age (prime-age)	81.5%	--	--	**81.7%**
Employment-to-Population Ratio	59.9%	--	--	**60.0%**
Population Growth (16 years and older)	-660,000	--	--	**164,000**

Context

Since 2016, key metrics the Federal Reserve considers for monetary policy, such as the inflation rate and the unemployment rate, have looked much the same. Earlier last year when the Fed even hinted at interest rate hikes, equity markets tanked, and the Fed held the rate steady. Now, the Fed appears poised to raise rates at its meeting next week (and has signaled two more hikes this year), yet equity markets have not declined. What is causing this change?

JEC believes that the anti-growth policies of the previous administration constrained America's economic potential, effectively putting a ceiling on growth. Financial markets are forward looking, as their values today reflect participants' expectations about future economic performance. The markets may anticipate pro-growth policies that can restore America's untapped economic potential, such as by encouraging the missing 1.7 million prime-age workers to return to the workforce. We believe the more optimistic outlook helps explain why equity markets are not responding negatively to the anticipated Fed actions.

Noteworthy

Nonfarm payroll job growth for December was revised down from +157,000 to +155,000 (final estimate). For January, it was revised up from +227,000 to +238,000 (second estimate). The March Employment Situation release is scheduled for Friday, April 7, at 8:30am.

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[1] Because the population is aging, this measure's value is difficult to interpret. Therefore, JEC considers the prime working-age LFPR, which measures the ratio of those aged 25 to 54 who are currently employed or have sought work in the past four weeks, a better indicator.

[2] U-6 includes those actively seeking work in the last four weeks (the measure used in U-3), those who would like a job but do not believe any are available to them (discouraged workers), and those persons who want full-time work but can only find part-time work for economic reasons.

[3] These measurements consist only of gross wages and salary and do not account for non-monetary benefits and compensation. They are not adjusted for inflation. AWE accounts for the average number of hours worked while AHE does not.

[4] Production and nonsupervisory workers account for over 82% of all private-sector employees. For service-producing industries, this measure excludes supervisors and employees who are also owners. For the goods-producing sector, workers engaged in management, sales, and accounting are excluded.