

Job Growth Runs Hot Again in February, But With Big Downward Revisions to January and December; Small Increase in Wages Is Good News for Inflation

- **Job growth was 275,000 in February, above expectations, but there were large downward revisions to job growth in the previous two months.**
- **The unemployment rate rose to 3.9%, with the labor force participation rate steady at 62.5%.**
- **Average hourly earnings were up just 0.1% in February, and growth softened on a year-over-year basis; easing wage growth will help slow inflation.**
- **This solid jobs report supports PNC's forecast for a soft landing in the U.S. economy this year, with fed funds rate cuts starting in the second quarter.**
- **The market response to the jobs report was modest.**

Job growth surprised to the upside in February, with the U.S. economy adding 275,000 jobs, according to a survey of employers from the Bureau of Labor Statistics. This was above the consensus expectation of 200,000. However, there were big downward revisions to job growth in January (to 229,000 from 353,000) and December (to 290,000 from 333,000). Over the past three months job growth has averaged 265,000; this is about double long-term potential job growth, given underlying expansion in the labor force. The private sector added 223,000 jobs in February, up from 177,000 in January.

The unemployment rate rose to 3.9% in February from 3.7% in the previous three months. This is the highest the unemployment rate has been since January 2022. But the unemployment rate has been below 4% for more than two straight years, the longest-such stretch since the late 1960s. Employment in a survey of households (different from the survey of employers) fell by 184,000, while the number of people in the labor force (working or looking for work) rose by 150,000. The labor force participation rate—the share of adults working or looking for work—held steady at 62.5% for a second month; it has been between 62.5% and 62.8% for the past year, structurally below the 63%+ rate before the pandemic.

Average hourly earnings rose just 0.1% in February from January, and wage growth in January was revised lower, to 0.5% from 0.6%; there was also a downward revision to wage growth in December. On a year-over-year basis average hourly earnings were up 4.3% in February, down from 4.5% in January before revisions, and 4.4% after revisions. Over the past three months wage growth has been 4.0% annualized.

The average workweek rose to 34.3 hours in February from 34.2 hours in January (revised higher from 34.1 hours). Except for January, the average workweek has been either 34.3 or 34.4 hours every month since March 2023. With more jobs, a longer workweek, and slightly higher average wages, total labor income rose a solid 0.6% in February, after a scant 0.1% increase in January. With inflation expected to be 0.4% in February (CPI to be released March 12), workers enjoyed a decent increase in their real earnings over the month.

Job growth was 19,000 in goods-producing industries, with an increase of 23,000 in construction and a decline of 4,000 in manufacturing. Private services-providing industries added 204,000 jobs in February, with increases of 85,000 in education/health services, 58,000 in leisure/hospitality services, 20,000 in transportation/warehousing, and 19,000 in retail trade. Employment in professional/business services rose by just 9,000 in February, including job losses of 15,000 in temporary help; that segment is often a leader of the overall labor market. Government employment rose by 52,000 in February, with about three-quarters of that coming from local government.

The February jobs report was further indication of a soft landing for the U.S. economy in 2024, with slower inflation and weaker job growth, but no recession. Job growth remains good, but with the downward revisions to December and January is not as strong as it appeared last month. U.S. employment growth continues to outpace underlying growth in the labor force, but should ease over the course of 2024. Wage growth is gradually declining to the 3.5% pace that is roughly consistent with the Federal Reserve's 2% inflation mandate.

The February employment report is consistent with PNC's forecast for a federal funds rate cut at the Federal Open Market Committee's meeting on May 1. Chair Powell has all but ruled out a cut at the FOMC's next meeting in a couple of weeks, but a gradual softening in the labor market and slower inflation should support fed fund rate cuts starting in the second quarter. The fed funds futures market is pricing in a 26% probability of at least one 25 basis point cut in the fed funds rate by the FOMC's May 1 meeting, little changed from yesterday. There is a 56% probability of one 25 basis point rate cut by the June 12 FOMC meeting, with an additional 19% probability of a cumulative 50+ basis points. The fed funds futures market is pricing in a median fed funds rate of between 4.25% and 4.50% (down 100 basis points) at the end of 2024, with a roughly symmetric distribution.

There was little market reaction to the jobs report, with the S&P 500 opening little changed, and up by about 0.1% in the late morning. The one-year and two-year Treasury bill yields are down by a few basis points on expectations for a bit more Fed easing, but other yields are little changed. The U.S. dollar is down slightly against a basket of foreign currencies. The price of a barrel of West Texas Intermediate crude oil is down by about 60 cents to \$78.30.

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