# ECONOMIC REPORT

Stuart Hoffman
Chief Economist

Gus Faucher
Deputy Chief Economist

William Adams
Senior Economist

Kurt Rankin
Economist

Mekael Teshome
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

## SOLID FEBRUARY JOBS REPORT SEALS THE DEAL FOR FED FUNDS RATE HIKE; MORE SIGNS OF HIGHER INFLATION

### SUMMARY

- The February employment report was solid, with job growth of 235,000 and gains in most industries.
- The unemployment rate fell slightly to 4.7 percent.
- Average hourly earnings rose 0.2 percent in February, and were up 2.8 percent from one year earlier.
- The producer price index for final demand rose 0.3 percent in February; inflation is gradually accelerating.
- Given the very good February jobs report, rising inflation, and recent speeches from Fed officials, the FOMC is ready to raise the federal funds rate on March 15.

Payroll employment rose by 235,000 in February, above the market consensus of 190,000 and PNC's forecast of 225,000. February private-sector employment growth was 227,000, very good but well below the 298,000 net new private-sector jobs in the ADP national employment report. There was an upward revision to job growth in January to 238,000 (from 227,000) but a small downward revision in December to 155,000 (from 157,000), for a net upward revision of 9,000. Over the past three months job growth has averaged 209,000, slightly above the 2016 average of 187,000.

The unemployment rate fell to 4.7 percent in February from 4.8 percent in January. The number of people who reported having jobs in the household survey (different from the survey of employers) rose by a large 447,000 in February, after an even bigger increase in January. The labor force rose by a smaller but still substantial 340,000 in February, and the labor force participation rate rose by 0.1 percentage point to 63.0 percent, matching its expansion high. However, it remains well below its pre-recession level. The number of unemployed fell by 107,000 in February, just offsetting January's increase.

The broader U-6 unemployment rate (unemployed, "under employed" and too discouraged to even look for a job) moved down to 9.2 percent in February from 9.4 percent in January; this matches the lowest rate during the current expansion, but it remains above its pre-recession trough. Part-time jobs for economic reasons ("involuntary part-time jobs") fell by 136,000 in February, and were down by 315,000 from one year earlier. Voluntary part-time jobs fell by 286,000 in February but were up by 178,000 from a year earlier.

The breadth of payroll job growth in February was widespread across both private service-providing industries and goods-producing industries. Mining employment rose for a third straight month, up by 9,000, although it is still down by 224,000 (25 percent) from its peak in the fall of 2014. Construction jobs rose by a huge 58,000 in February, the biggest one-month increase since the tail end of the housing boom in 2007, and this followed a big gain of 40,000 in January. Unseasonably warm weather in early 2017 is supporting construction employment, but industry job growth will slow in the near term with a smaller-than-usual pickup in spring hiring. Manufacturing jobs rose by 28,000, the third straight increase; it could be that manufacturers are encouraged by the Trump administration. Private service-providing industries added 136,000 jobs in February. This included gains of 37,000 in professional/business services (including 3,000 in temporary services), a huge 62,000 in eds and meds, 26,000 in leisure/hospitality services, and 7,000 in financial activities. Employment was flat in information services, and fell by 18,000 in trade/transportation/utilities, including a loss of 26,000 jobs in retail trade. State and local government jobs were up by 6,000 in February, and Federal government jobs were up by 2,000.

With a tighter job market average hourly earnings rose 0.2 percent in February, and growth in December and January was revised higher as well. Average hourly earnings were up 2.8 percent in February from one year earlier. The tighter labor

# SOLID FEBRUARY JOBS REPORT SEALS THE DEAL FOR FED FUNDS RATE HIKE; MORE SIGNS OF HIGHER INFLATION

market is slowly pushing up wages (see Chart 1). The average workweek held steady from January and December at 34.4 hours.

Combining 235,000 new payroll workers, a moderate rise in average hourly wages and a steady average workweek (total hours worked rose 0.2 percent), workers' earned income rose a moderate 0.5 percent in February. The February CPI was likely up by just 0.1 percent (to be reported on March 15th) as gasoline prices fell slightly over the month, so workers' real income rose 0.4 percent in February.

Taken all together, a strong, widespread rise in February payroll jobs (including a very large 95,000 jobs in goods-producing industries); a modest net upward revision to job growth in the two prior months; a drop in the unemployment rate; an increase in the labor force participation rate; solid wage growth; and a steady average workweek constitute a very good February jobs report.

The producer price index rose 0.3 percent in February, above consensus expectations for a 0.1 percent increase and PNC's expectations of a 0.2 percent increase. Producer goods price rose 0.3 percent, with core goods prices (excluding food and energy) up 0.1 percent. Producer services prices rose 0.4 percent in February.

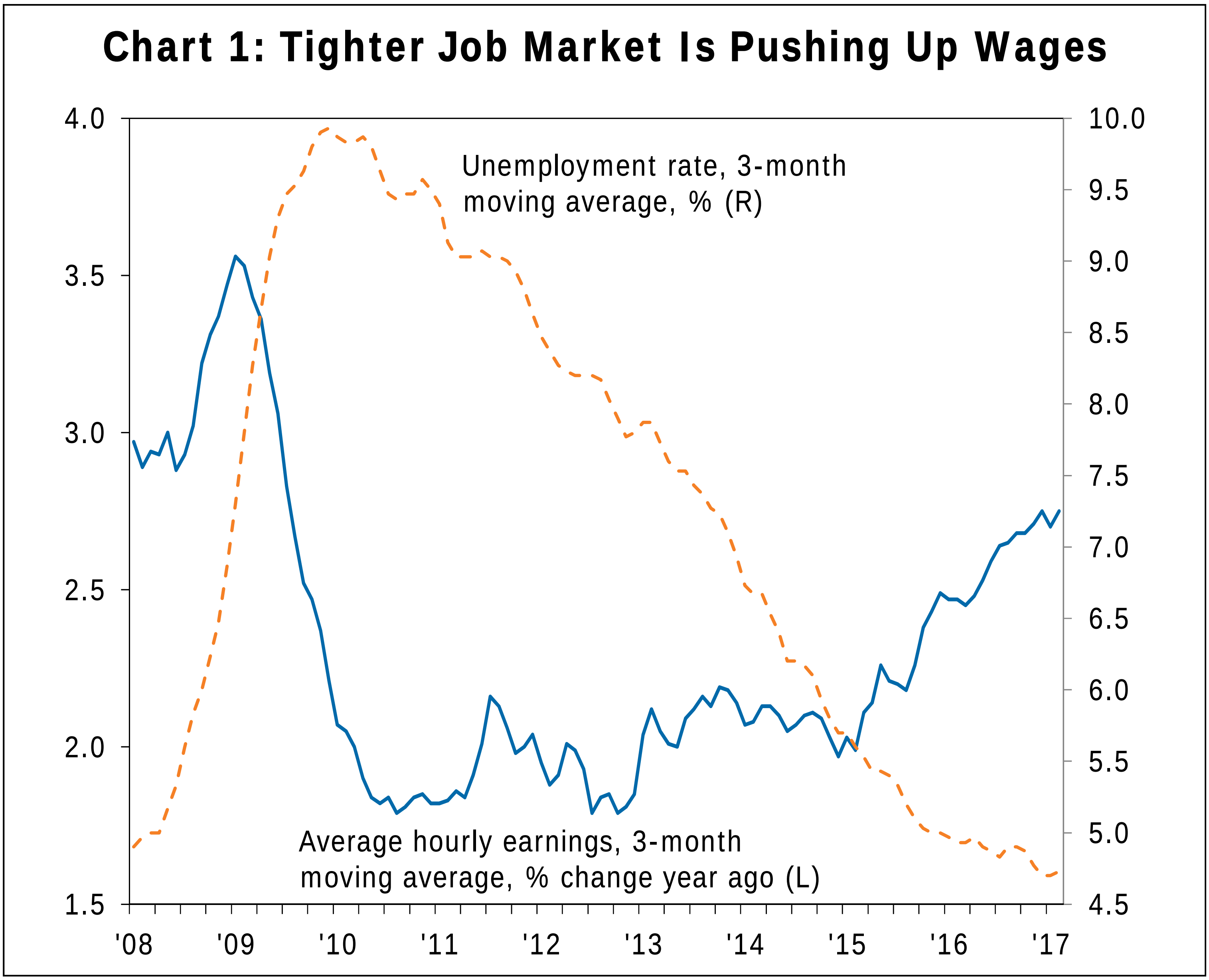


Chart source: Bureau of Labor Statistics

# SOLID FEBRUARY JOBS REPORT SEALS THE DEAL FOR FED FUNDS RATE HIKE; MORE SIGNS OF HIGHER INFLATION

On a year-ago basis the PPI for final demand was up 2.2 percent in February; this is a rapid acceleration from deflation in producer prices less than a year ago. Some of this is from higher energy prices, but other measures of producer price inflation are also picking up (see Chart 2). Rising energy prices and stronger wage growth, the result of a tightening labor market, are leading to higher inflation.

The very good February jobs report and the ongoing pickup in inflation have sealed the deal for an increase in the federal funds rate. Chair Yellen and other Fed officials have used recent speeches to signal that a rate hike is coming, and these recent reports, with good job growth, solid wage gains, and accelerating inflation, are what they are looking for. On March 15 the Federal Open Market Committee will announce a 0.25 percentage point increase in the fed funds rate, to a range of 0.75 to 1.00 percent. After tomorrow's hike the FOMC is likely to increase the fed funds rate by 0.25 percentage point two more times this year.

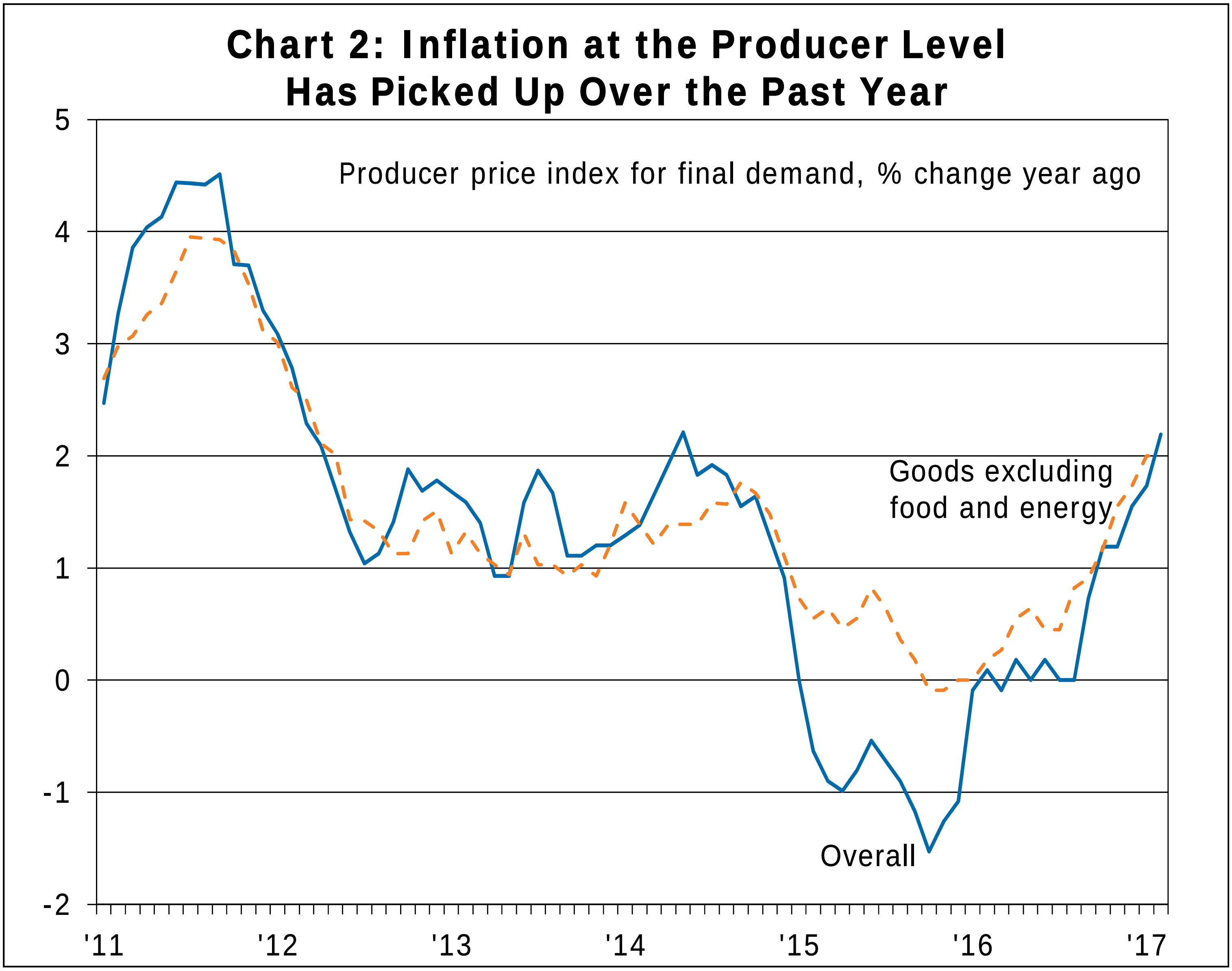


Chart source: Bureau of Labor Statistics

Visit http://www.pnc.com/economicreports to view the full listing of economic reports published by PNC's economists.