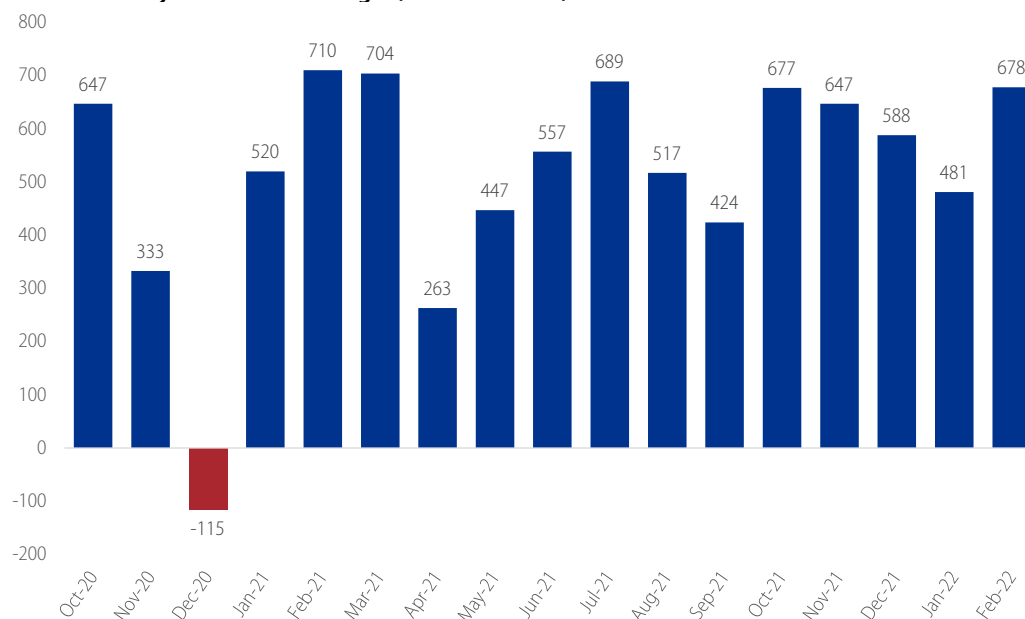


Strong February Employment Clears the Deck for Fed Liftoff

Nonfarm payrolls rose by +678k in February, the biggest single month increase since July, while revisions to December and January added another +92k. Over the last six months, according to data from the Bureau of Labor Statistics, 3.5 million jobs have been added to company payrolls. At this point, nonfarm payrolls are 2.1 million below the February 2020 total.

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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Most of the February payroll gains were concentrated in the lower-paying service sector with leisure and hospitality adding +179k jobs, still 1.5 million workers short of the pre-pandemic count. Education and health services chipped in +64k, leaving healthcare 309k below the February 2020 total. Other notable gains last month were found in construction (+60k), manufacturing (+36k) and retail (+37k). All of these increases reflect a sharp drop in Omicron cases during the month. Brisk hiring in construction and manufacturing suggest some near-term relief in supply bottlenecks.

The average workweek rose from 34.6 to 34.7 hours, while the factory workweek climbed 0.4 to 40.7 hours and overtime by 0.2 to 3.6 hours. These increases indicate a rising need to hire additional workers.

In the separate household survey, +548k Americans found work in January while +304k entered the labor force, driving the unemployment rate down from 4.0% to 3.8%, fast approaching the five-decade pre-pandemic low of 3.5%. The number of officially unemployed Americans was 6.3 million last month, compared to 5.7 million two years ago. (Only those actively seeking work over the last four weeks are considered to be unemployed.)

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The number of Americans prevented from looking for work due to the pandemic fell from 1.8 million to 1.2 million in February, while the number of Americans unable to work due to the virus, dropped from 6 million to 4.2 million in February, mirroring the plunge in daily COVID cases. On a related note, the percentage working remotely fell from 15.4% to 13% as mask mandates were increasingly lifted.

The labor market participation rate climbed to 62.3%, the highest since March 2020, now just 1.1 percentage points below pre-pandemic levels. This is particularly encouraging as returning workers are essential to continued economic growth.

There was *no change* in average hourly earnings in February. This was the biggest surprise in the report. Analysts were expected a +0.5% increase. On a year-over-year basis, earnings were up +5.1%, well below the +5.8% median forecast.

Earlier this week, Fed Chairman Powell told members of Congress that the decline in the participation rate during the pandemic has contributed to wage inflation and the labor shortage. Powell also told lawmakers that he would be recommending a quarter point hike on March 16th. In doing so, Powell removed any lingering possibility of a 50 basis point move this month. However, he kept the door open for larger moves in the future if inflation remains elevated.

It was a strong report across the board, highlighted by a return of sidelined workers and a (somewhat puzzling) unchanged measure of hourly earnings. Nothing in the report is likely to impact monetary policy. Bond yields, whipsawing for much of the past week, are sharply lower in early trading. This has little, if anything, to do with this morning's report and everything to do with the rapidly escalating military conflict in Ukraine. In fact, most economic news will likely be crowded off the front page as war replaces COVID as the primary market driver.

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Market Indications as of 9:53 A.M. Central Time

DOW	Down -496 to 33,299 (HIGH: 36,800)
NASDAQ	Down -247 to 13,291 (HIGH: 16,057)
S&P 500	Down -56 to 4,308 (HIGH: 4,797)
1-Yr T-bill	current yield 0.98%; opening yield 1.03%
2-Yr T-note	current yield 1.45%; opening yield 1.55%
3-Yr T-note	current yield 1.58%; opening yield 1.70%
5-Yr T-note	current yield 1.60%; opening yield 1.75%
10-Yr T-note	current yield 1.71%; opening yield 1.85%
30-Yr T-bond	current yield 2.14%; opening yield 2.23%

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