Markets Rally on Mixed February Labor Report

U.S. companies hired a larger-than-expected number of workers in February, but December and January payrolls were revised significantly lower, while the headline unemployment rate climbed to a two-year high. Although the overall report was arguably strong, it was much softer than the blowout January numbers and should keep the Fed on track to begin cutting rates in June.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Nonfarm payrolls rose +275k last month, bettering the +200k median forecast; however, the headline strength was mitigated as the combined payroll increases over the previous two months were revised lower by a whopping -167k.

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Of the +223k jobs added in the private sector, +204k were in the service category. Notable job gains were concentrated in healthcare (+67k), government (+52k), food service and drinking establishments (+42k), social assistance (+24k), construction (+23k) and retail trade (+19k). Notable losses were found in manufacturing (-4k). It's also worth mentioning that U.S. companies shed another -15.4k temporary positions last month following a combined reduction of -22.5k in the previous two months.

The separate household survey continued to tell a much different story than the company survey as the number of employed workers dropped by -184k in February after falling by a combined -151k in the previous two months. Another +150k workers entered (or reentered) the civilian labor force last month, pushing the headline unemployment rate up from 3.7% to 3.9%, the highest since January 2022. The number of unemployed Americans actively seeking work over the past 30 days increased by +334k to 6.5 million. Another 5.7 million would presumably accept a suitable job, but were not counted among the unemployed as they had not sought employment in the past month.

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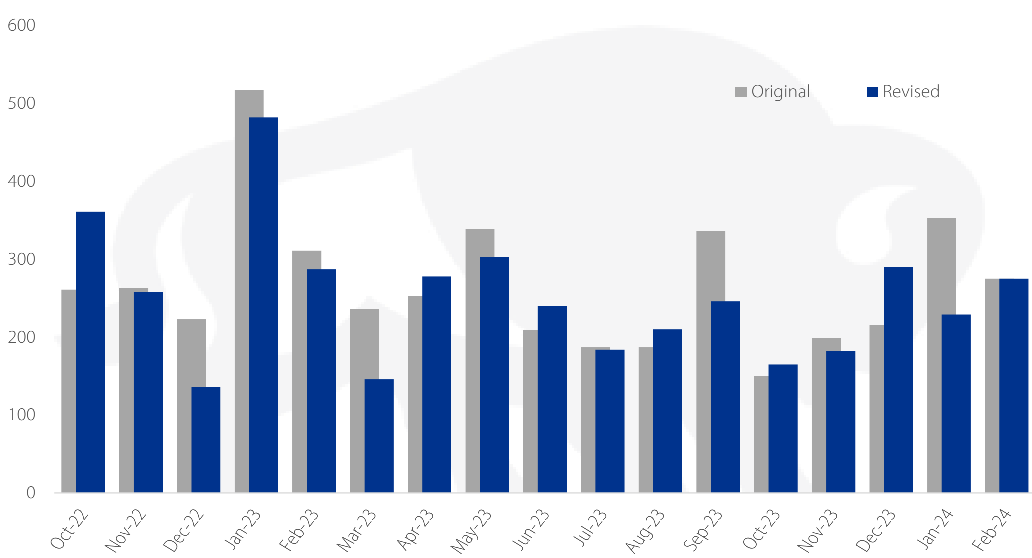
Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

Perhaps the most important news from this morning's BLS report was average hourly earnings, which rose by just +0.1% in February while the unexpectedly sharp +0.6% increase in January wages was revised downward to +0.5%. *Since hourly earnings directly impact inflation, this apparent deceleration is significant.*

It's been a widely-embraced opinion that much of the hot January economic numbers would prove to be outliers. The downward payroll revisions in this morning's report, along with the rise in unemployment and abrupt cooling of hourly earnings follows the outlier narrative. Employment conditions are still solid, *even strong*, but this morning's release introduces enough cracks to suggest welcomed cooling ahead.

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Market Indications as of 9:19 A.M. Central Time

DOW	Up 100 to 38,891 (HIGH: 39,312)
NASDAQ	Up 147 to 16,421 (NEW HIGH)
S&P 500	Up 29 to 5,186 (NEW HIGH)
1-Yr T-bill	current yield 4.91%; opening yield 4.91%
2-Yr T-note	current yield 4.46%; opening yield 4.50%
3-Yr T-note	current yield 4.23%; opening yield 4.28%
5-Yr T-note	current yield 4.04%; opening yield 4.08%
10-Yr T-note	current yield 4.08%; opening yield 4.09%
30-Yr T-bond	current yield 4.27%; opening yield 4.25%