

US Watch

February US employment: Resilience, but not overheating

Bottom line: resilience, but not overheating

In our view, the February employment report should reduce worries over the labor market tightening, wage inflation reaccelerating and bolster confidence that job growth remains supportive of consumption.

Solid employment, but downward revisions

Nonfarm payrolls rose by 275k in February, above our expectation for a 215k increase, but employment growth over the prior two months were lower by 167k. January and December employment gains are now reported at 229k and 290k, respectively. Previously these were 353k and 333k. We think these revisions validate our view that some of the strength of the January report was statistical noise rather than signal.

The laggards continue to drive job growth

Job gains continue to be driven by sectors that lagged the broader employment recovery. Service sectors added 204k jobs owing to a 91k increase in education & health, and a 58k rise in leisure & hospitality. Employment in these sectors remains below pre-pandemic trends suggesting that employment can continue to “catch-up”. That said, we think employment in leisure & hospitality may be structurally lower coming out of the pandemic so the catch-up effect there could be more limited.

Public sector employment, another laggard, added 48k jobs. Federal employment rose by 9k while state and local rose by 39k. The latter was broadly split between education and non-education jobs, which points to the importance of job gains in education and health as an important driver in US re-employment. Goods producing sectors, meanwhile, added 19k on the month, with construction adding 23k and manufacturing losing 4k.

Labor market income outpacing inflation

Average weekly hours ticked higher to 34.3 from an upwardly revised 34.2 in January, while average hourly earnings were up a soft 0.1%. Earnings for January were also revised lower to 0.5% from 0.6% previously. The payroll proxy, which is the index of aggregate hours worked multiplied by the index of average hourly earnings, rose by 5.0% in Jan-Feb over the 4Q average (2m/3m % chg saar). Hence, despite soft wage growth, the rebound in weekly hours and solid employment means nominal labor market income growth for production and nonsupervisory workers continues to outpace inflation.

The rebound in the work week to 34.3 points to weather-effects in January. That said, growth in hours over the past year has slowed. This is likely on account of the US recovery being further along and most job gains coming in services-providing sectors which have a shorter workweek. This composition effect may also be weighing on average hourly earnings since services jobs tend to have lower wages. That said, growth in the payroll proxy continues to run ahead of inflation, suggesting the labor market should keep consumer spending resilient despite high policy rates.

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Refer to important disclosures on page 7 to 9.

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AHE: Average Hourly Earnings

k: thousand

saar: seasonally adjusted annual rate

Participation has stabilized

In the household survey, the U3-unemployment rate ticked higher to 3.9% (3.857% to three decimals) while the participation rate held steady at 62.5%. The rebound in participation appears to have stalled out as it has remained broadly stable at these levels for about six months. This is in line with our forecast for sideways participation over our forecast horizon.

Employment in the household survey fell by 184k while unemployment rose by 334k. We normally discount the level changes in the household survey given small sample size and high volatility and, instead, focus on the ratios. Discrepancies between employment changes the household survey and establishment survey tend to be resolved over time by the household survey converging toward establishment surveys. Nonetheless, the signal from the household survey is in the direction of softening labor market conditions, mirroring the wage data and revisions in the establishment report.

Where is the overheating? A June cut still seems likely

There does appear to be some acceleration in the hiring rate. However, it is not leading to overheating effects through faster wage growth, which is an important proxy for the outlook for services inflation. Hiring in December through February has accelerated versus prior months – that we cannot deny – but downward revisions point to a more modest bounce than prior data indicated, and wage growth still appears muted.

On net, we retain our outlook for the first rate cut in June and 75bp of rate cuts this year. We think the February data should incrementally increase the confidence of FOMC participants that the economy can continue to grow at a modest pace while preserving labor market gains and disinflation.

Rates market reaction

The UST (US Treasury) curve bull steepened as the market priced greater conviction in a 25bps cut by June and slightly over 95bps of cuts this year. As discussed in a recent Liquid insight— Connecting to the dots —the market historically prices in around 25bps of cuts beyond the median 1y ahead dot plot. Current pricing suggests the market is sees the data as dismissing the need for a shift in Fed modal views.

The steepening of the curve was concentrated in real yields with inflation compensation little changed. This is consistent with our view that Fed cuts alongside a softer landing should drive the real yield curve steeper, with inflation pricing more supported at the front end (see: Inflation Strategist: Some realism about the Bund-Treasury spread 28 February 2024). On net, the employment data continue to support a "buy the dip" mentality in the rates market with the base case of Fed cuts this year. We continue to recommend clients trade the recent range and consider lightening up on duration if 10Y falls below 4% and cutting trough nears 3.25%.

Table 1: Summary of jobs data (most recent 6 months)

Nonfarm payrolls have increased by an average of 231k over the last six months, and 265k over the last three

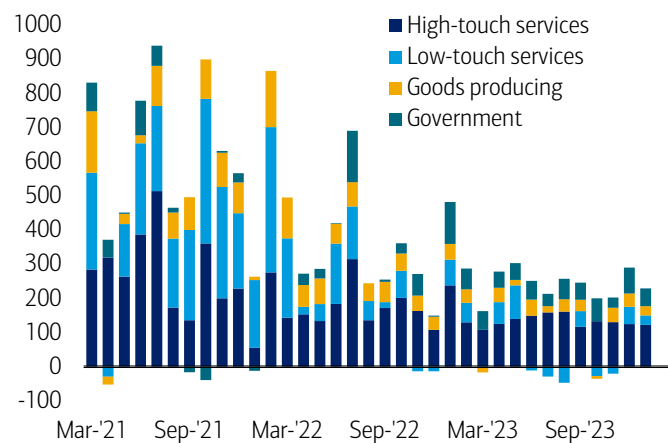
	Feb	Jan	Dec	Nov	Oct	Sep
Establishment survey						
Nonfarm payrolls	275k	229k	290k	182k	165k	246k
Private payrolls	223k	177k	214k	152k	98k	196k
Construction	23k	19k	18k	15k	22k	13k
Manufacturing	-4k	8k	12k	25k	-31k	13k
Government	52k	52k	76k	30k	67k	50k
Average weekly hours	34.3	34.2	34.4	34.4	34.3	34.4
Avg hrly earnings (mom %)	0.1%	0.5%	0.3%	0.4%	0.3%	0.3%
Household survey						
Unemployment rate	3.9%	3.7%	3.7%	3.7%	3.8%	3.8%
Participation rate	62.5%	62.5%	62.5%	62.8%	62.7%	62.8%
Labor force	150k	-175k	-676k	404k	-174k	57k
Household jobs	-184k	-31k	-683k	586k	-270k	50k
Employment to pop. ratio	60.1%	60.2%	60.1%	60.4%	60.3%	60.4%

Source: Bureau of Labor Statistics

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Exhibit 2: Private sector job growth (thousand, seasonally adjusted-sa)

Job growth has become increasingly narrowly driven



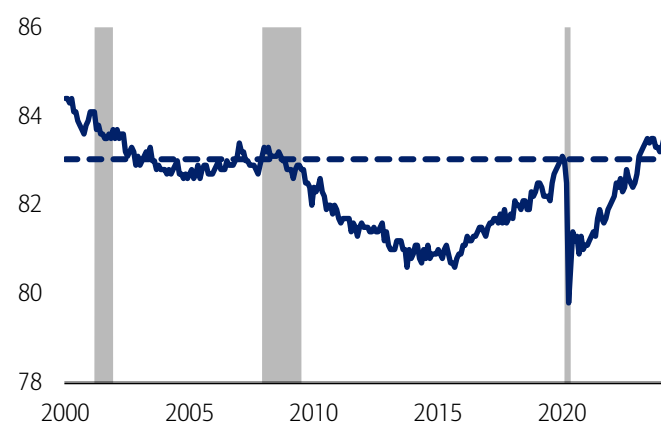
Source: Bureau of Labor Statistics, BofA Global Research

High-touch services sectors include leisure and hospitality, education and health, and other services

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Exhibit 1: Prime age labor force participation rate (%), dotted line = December 2019-February 2020 average)

The prime age participation rate increased to 83.5% in February

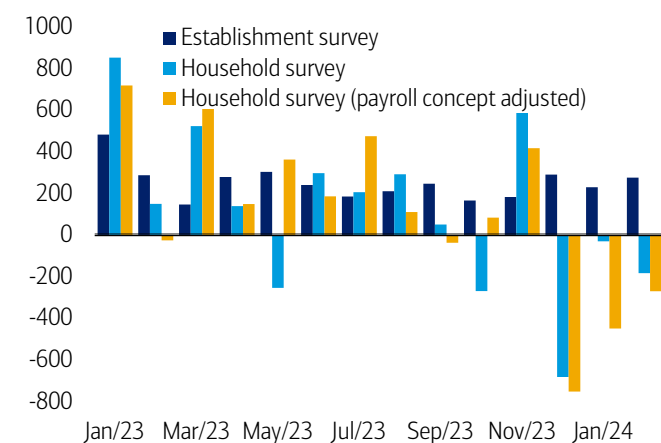


Source: Bureau of Labor Statistics

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Exhibit 3: Establishment and household payroll growth (thousand, sa)

The household survey measure of employment continues to diverge with the establishment measure



Source: Bureau of Labor Statistics, BofA Global Research

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Table 2: Monthly payroll growth heatmap (m/m change, 000s sa)

Job growth continues to be driven by leisure and hospitality, education and health, and the public sector

Feb-24 nfp share	Component	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23
100%	Total nonfarm	275	229	290	182	165	246	210	184	240	303	278	146
85%	Total private	223	177	214	152	98	196	150	148	185	254	231	91
14%	Goods-producing	19	24	33	36	-10	27	33	7	42	14	33	-12
0%	Mining and logging	0	-3	3	-4	-1	1	0	2	0	3	4	2
5%	Construction	23	19	18	15	22	13	31	11	33	16	20	-6
8%	Manufacturing	-4	8	12	25	-31	13	2	-6	9	-5	9	-8
5%	Durable goods	2	-1	19	37	-33	9	3	9	19	1	10	-1
3%	Nondurable goods	-6	9	-7	-12	2	4	-1	-15	-10	-6	-1	-7
72%	Service-providing	204	153	181	116	108	169	117	141	143	240	198	103
18%	Trade, transportation, and utilities	40	-15	24	-45	6	42	-29	9	-15	41	15	-32
4%	Wholesale trade	-1	-3	7	7	12	12	2	16	1	7	-1	9
10%	Retail trade	19	15	32	-43	1	18	-6	6	-6	13	6	-27
4%	Transportation and warehousing	20	-29	-18	-11	-9	9	-28	-11	-12	20	7	-16
0%	Utilities	3	2	2	2	2	2	3	-2	1	1	2	3
2%	Information	2	6	13	17	-26	11	-18	-28	-7	-3	-1	5
6%	Financial activities	1	-1	6	4	0	0	4	18	9	13	29	4
15%	Professional and business services	9	40	13	10	-5	-1	-1	-17	7	49	30	18
16%	Education and health services	85	107	84	110	77	81	93	109	77	91	79	62
11%	Leisure and hospitality	58	8	41	10	57	27	52	41	60	39	42	35
4%	Other services	9	8	0	10	-1	9	16	9	12	10	4	11

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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Table 3: Monthly average hourly earnings heatmap (% m/m)

Wage inflation slowed significantly in February easing concerns over reaccelerating wage pressures

Feb-24 nfp share	Component	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23
85%	Total private	0.14%	0.52%	0.32%	0.38%	0.26%	0.29%	0.21%	0.42%	0.48%	0.30%	0.39%	0.48%
14%	Goods-producing	0.11%	0.43%	0.43%	0.58%	0.32%	0.38%	0.18%	0.65%	0.59%	0.39%	0.48%	0.51%
0%	Mining and logging	0.43%	1.01%	0.34%	-0.03%	-0.18%	1.18%	0.18%	0.37%	0.00%	0.93%	1.13%	0.40%
5%	Construction	-0.08%	0.67%	0.27%	0.54%	0.46%	0.22%	0.25%	0.80%	0.33%	0.36%	0.39%	0.36%
8%	Manufacturing	0.21%	0.30%	0.51%	0.64%	0.24%	0.43%	0.06%	0.56%	0.78%	0.37%	0.47%	0.63%
5%	Durable goods	0.26%	0.49%	0.66%	0.67%	0.38%	0.50%	0.12%	0.50%	0.53%	0.57%	0.42%	0.69%
3%	Nondurable goods	0.03%	0.03%	0.13%	0.50%	0.00%	0.37%	0.00%	0.57%	1.22%	-0.03%	0.51%	0.51%
72%	Service-providing	0.1%	0.56%	0.29%	0.35%	0.21%	0.27%	0.24%	0.36%	0.45%	0.30%	0.36%	0.45%
18%	Trade, transportation, and utilities	0.00%	0.34%	0.61%	0.27%	0.07%	0.41%	0.34%	0.10%	0.66%	0.14%	0.56%	0.14%
4%	Wholesale trade	0.40%	0.08%	0.24%	0.13%	-0.19%	0.38%	0.49%	-0.11%	0.88%	0.11%	0.33%	0.44%
10%	Retail trade	-0.21%	-0.12%	0.62%	0.08%	-0.08%	0.33%	0.33%	0.21%	0.46%	-0.08%	0.55%	-0.42%
4%	Transportation and warehousing	0.20%	0.89%	0.77%	0.67%	0.57%	0.51%	0.27%	0.24%	0.69%	0.41%	0.66%	0.56%
0%	Utilities	-0.04%	0.67%	0.00%	0.38%	0.34%	0.22%	-0.60%	0.70%	0.38%	0.30%	0.41%	0.71%
2%	Information	-0.47%	-0.06%	-0.08%	0.90%	0.56%	0.00%	0.27%	0.17%	0.02%	0.86%	-0.83%	0.48%
6%	Financial activities	0.56%	0.67%	0.34%	0.50%	0.09%	0.48%	0.80%	0.65%	0.60%	0.63%	-0.05%	0.42%
15%	Professional and business services	0.24%	0.46%	0.29%	0.46%	0.34%	0.25%	0.00%	0.52%	0.50%	0.17%	0.55%	0.40%
16%	Education and health services	0.24%	0.56%	0.18%	0.06%	0.24%	0.48%	0.24%	0.33%	0.27%	0.24%	0.21%	0.64%
11%	Leisure and hospitality	0.55%	0.37%	0.28%	0.33%	0.61%	0.00%	0.19%	0.19%	0.43%	0.43%	0.43%	0.77%
4%	Other services	0.19%	0.45%	0.55%	0.32%	0.39%	0.20%	0.49%	0.40%	0.56%	0.47%	0.33%	0.77%

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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Table 4: Annual average hourly earnings heatmap (% y/y)

Annual wage growth rose by 4.3% y/y in February

Feb-24 nfp share	Component	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23
85%	Total private	4.28%	4.38%	4.25%	4.26%	4.28%	4.52%	4.53%	4.67%	4.66%	4.55%	4.66%	4.62%
14%	Goods-producing	5.15%	5.32%	5.37%	5.33%	5.14%	5.35%	5.31%	5.45%	5.06%	4.73%	4.75%	4.74%
0%	Mining and logging	5.90%	5.93%	5.64%	5.92%	6.36%	6.61%	5.49%	5.03%	5.99%	7.06%	7.19%	4.57%
5%	Construction	4.66%	5.21%	4.74%	5.02%	4.96%	5.05%	5.33%	5.46%	4.72%	5.01%	5.27%	5.45%
8%	Manufacturing	5.33%	5.21%	5.53%	5.25%	4.92%	5.23%	5.02%	5.33%	5.09%	4.28%	4.09%	4.14%
5%	Durable goods	5.93%	5.85%	5.88%	5.12%	4.84%	4.85%	4.66%	4.98%	4.56%	3.97%	3.67%	3.91%
3%	Nondurable goods	3.91%	3.84%	4.60%	5.19%	4.99%	5.66%	5.49%	5.61%	5.79%	4.55%	4.66%	4.50%
72%	Service-providing	4.05%	4.18%	3.98%	4.00%	4.04%	4.34%	4.35%	4.49%	4.57%	4.53%	4.64%	4.59%
18%	Trade, transportation, and utilities	3.70%	4.21%	4.56%	4.21%	4.15%	4.97%	4.92%	4.79%	5.25%	4.79%	5.18%	4.63%
4%	Wholesale trade	3.23%	2.62%	3.76%	4.36%	3.63%	5.24%	5.29%	4.45%	5.37%	4.97%	4.76%	4.78%
10%	Retail trade	1.68%	2.80%	3.32%	2.60%	3.13%	4.10%	3.94%	3.82%	4.32%	4.21%	4.66%	3.86%
4%	Transportation and warehousing	6.63%	7.09%	6.67%	5.97%	5.75%	5.33%	5.36%	5.79%	5.81%	4.97%	5.60%	4.95%
0%	Utilities	3.53%	3.87%	3.89%	4.52%	4.10%	4.23%	5.05%	5.88%	5.18%	5.16%	6.21%	5.33%
2%	Information	1.81%	2.76%	2.81%	3.34%	2.25%	1.38%	2.28%	3.63%	3.81%	4.74%	4.59%	5.91%
6%	Financial activities	5.85%	5.44%	5.05%	5.42%	5.12%	5.10%	5.25%	4.56%	4.29%	4.29%	3.64%	4.04%
15%	Professional and business services	4.27%	4.31%	4.22%	4.23%	4.28%	4.40%	4.41%	4.71%	4.57%	4.33%	4.55%	4.58%
16%	Education and health services	3.76%	3.61%	3.35%	3.48%	3.90%	4.23%	3.80%	3.81%	4.05%	4.33%	4.60%	4.58%
11%	Leisure and hospitality	4.66%	4.28%	4.10%	4.51%	4.79%	4.71%	4.97%	5.24%	5.72%	5.85%	5.99%	6.12%
4%	Other services	5.25%	5.55%	5.75%	5.14%	5.48%	5.36%	5.77%	5.40%	5.42%	5.31%	5.07%	5.28%

Source: Bureau of Labor Statistics. nfp = non-farm payrolls.

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Table 5: Labor market dashboard

Employment data show a broad-based recovery across demographics

Indicator	Prepandemic avg	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23
Unemployment Rate													
Total	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.5	3.6	3.7	3.4	3.5	3.6
Prime age (25-54)	3.0	3.3	3.3	3.1	3.2	3.2	3.1	3.0	3.1	3.2	3.1	3.0	3.1
Men	3.5	3.9	3.9	4.0	4.1	4.1	4.0	3.7	3.7	3.7	3.5	3.6	3.6
Women	3.6	3.4	3.6	3.4	3.6	3.4	3.5	3.4	3.4	3.6	3.4	3.4	3.5
White	3.1	3.4	3.5	3.3	3.5	3.4	3.4	3.1	3.1	3.3	3.1	3.2	3.2
Black	6.2	5.3	5.2	5.8	5.8	5.7	5.3	5.7	6.0	5.7	4.8	5.1	5.7
Hispanic	4.3	5.0	5.0	4.6	4.8	4.6	4.9	4.4	4.2	4.1	4.4	4.6	5.4
Asian	2.7	2.9	3.1	3.5	3.1	2.9	3.2	2.3	3.1	3.0	2.8	2.8	3.4
Employment Population Ratio													
Total	61.1	60.2	60.1	60.4	60.3	60.4	60.4	60.4	60.3	60.3	60.4	60.4	60.2
Prime age (25-54)	80.5	80.6	80.4	80.7	80.6	80.8	80.8	80.9	80.9	80.7	80.7	80.7	80.5
Men	66.7	65.2	65.5	65.7	65.2	65.5	65.5	65.5	65.6	65.5	65.7	65.8	65.5
Women	55.8	55.5	55.0	55.4	55.5	55.5	55.6	55.5	55.3	55.3	55.4	55.2	55.2
White	61.3	60.0	59.9	60.3	60.1	60.3	60.4	60.3	60.4	60.2	60.3	60.2	60.1
Black	59.1	60.0	60.1	60.0	59.3	59.4	59.4	59.2	58.9	59.6	59.9	60.7	59.7
Hispanic	64.7	63.5	63.4	63.9	63.8	64.1	63.9	64.3	64.4	64.1	63.8	63.7	63.3
Asian	62.2	62.6	61.9	62.7	63.3	63.8	63.5	64.0	63.4	63.1	63.0	63.0	62.9
Labor force participation rate													
Total	63.3	62.5	62.5	62.8	62.7	62.8	62.8	62.6	62.6	62.6	62.6	62.6	62.5
Prime age (25-54)	83.0	83.3	83.2	83.3	83.3	83.5	83.5	83.4	83.5	83.4	83.3	83.2	83.1
Men	69.1	67.9	68.1	68.4	68.0	68.3	68.2	68.0	68.1	68.1	68.0	68.3	68.0
Women	57.9	57.5	57.1	57.4	57.6	57.5	57.6	57.4	57.3	57.3	57.3	57.2	57.2
White	63.2	62.1	62.1	62.3	62.3	62.4	62.5	62.3	62.3	62.3	62.3	62.2	62.1
Black	63.0	63.3	63.4	63.7	63.0	63.0	62.7	62.8	62.7	63.1	62.9	64.0	63.3
Hispanic	67.6	66.8	66.7	66.9	67.0	67.2	67.1	67.3	67.3	66.8	66.8	66.8	66.9
Asian	63.9	64.5	63.9	65.0	65.3	65.7	65.6	65.5	65.4	65.0	64.8	64.8	65.1
Wage measures													
Employment Cost Index (quarterly, % yoy)	2.7	n.a.	4.2	n.a.	n.a.	4.3	n.a.	n.a.	4.5	n.a.	n.a.	4.8	n.a.
Atlanta Wage Growth Tracker (% yoy, 12mma)	3.7	n.a.	5.6	5.6	5.8	5.8	6.0	6.0	6.1	6.3	6.3	6.4	6.3
NFIB: % Raising Compensation	33.7	39.0	36.0	36.0	36.0	36.0	36.0	38.0	36.0	41.0	40.0	42.0	46.0
NFIB: % Planning to Raise Compensation	22.3	26.0	29.0	30.0	24.0	23.0	26.0	21.0	22.0	22.0	21.0	22.0	23.0
Conference Board: 6-Month Ahead Income Change	22.3	16.4	18.3	17.7	15.6	17.9	18.7	17.8	18.6	18.9	17.3	16.2	14.4
U of M: 1-Yr Ahead Income Change Expectations (Median)	2.2	2.7	2.1	2.2	1.6	1.7	2.4	1.9	1.8	2.3	1.8	1.5	2.4
NY Fed: 1-Yr Ahead Earnings Growth Expectation	2.5	n.a.	2.5	2.7	2.8	3.0	2.9	2.8	3.0	2.8	3.0	3.0	3.0

Source: Bureau of Labor Statistics

Note: Prepandemic average is the average of each indicator from December 2019-February 2020

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