Comerica Economic Alert

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February ADP Jobs, Q4 Productivity

Strong Job Gains Reinforce High Odds of March 15 Rate Hike

- The February ADP Employment Report showed a strong gain of 298,000 private-sector jobs for the month.
- Productivity increased in 2016Q4 at a 1.3 percent annualized rate.

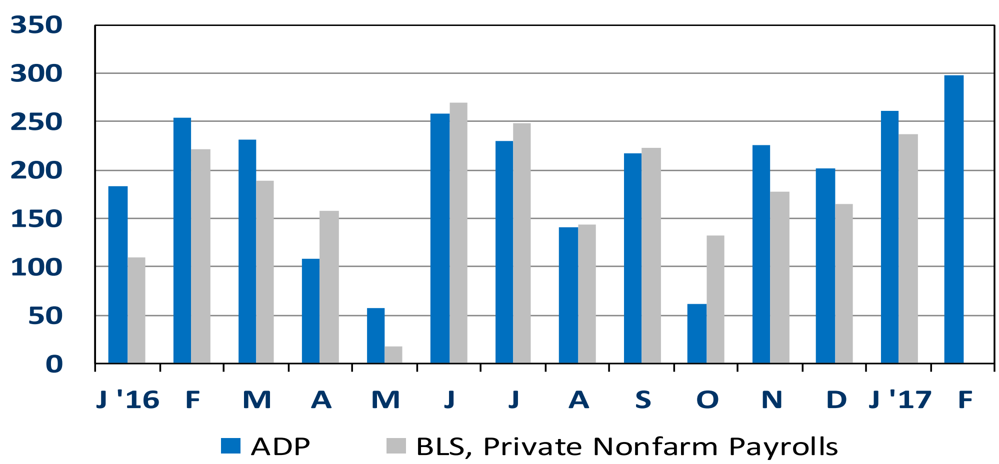
The ADP National Employment Report for February showed a larger-than-expected increase of 298,000 private-sector jobs for the month. Given the federal government hiring freeze, we will take the ADP number as a first approximation for the official Bureau of Labor Statistics payroll job count for February, to be released this Friday morning. The ADP and BLS numbers do not have to line up for any given month, but they are well correlated over time. Last Friday we estimated a gain of 190,000 payroll jobs for the month of February in the BLS data. It now looks like we should increase our estimate substantially. A strong net increase of payroll jobs in February will provide further justification to the Federal Reserve for a March 15 fed funds rate hike. The implied probability of a March 15 fed funds rate hike is now 88.6 percent according to the CME Group. We expect the implied probability to remain very high after the Friday morning BLS data release. We will get no more communication from Federal Reserve officials until the March 15 monetary policy announcement. According to ADP, resources and mining companies added 8,000 jobs in February, consistent with the increasing drilling rig count. Construction was very strong, adding 66,000 jobs. Manufacturing was also strong, up 32,000 jobs in February. Trade/transportation/utilities gained 9,000 jobs. Information services was up 25,000. Financial services employment increased by 4,000 jobs. Professional and business services employment increased by 66,000 jobs. Education and healthcare added 40,000, as did leisure and hospitality industries.

Productivity growth in the U.S. dipped in the fourth quarter of 2016 to 1.3 percent, after growing at a 3.3 percent annualized rate in 2016Q3. Productivity growth has been a focus of economists recently for two key reasons. First, high productivity growth means that wage gains do not necessarily cut into corporate profits, and so are not necessarily inflationary. A period of low productivity growth, such as we have now, increases the propensity for wage gains to fuel price gains. This factors into the Federal Reserve's calculation for the need to increase the fed funds rate this year, to reposition monetary policy ahead of increasing inflation expectations. The other reason for the keen interest in productivity growth now is that productivity growth is half of the calculation for potential GDP growth. The other half is labor force growth. It is a goal of the Trump Administration to increase U.S. GDP growth on a sustained basis. This will be difficult if the productivity numbers remain subdued.

Market Reaction: U.S. equity markets opened with gains. The yield in 10-Year T-bonds is up to 2.56 percent. NYMEX crude oil is down to $52.59/barrel. Natural gas futures are up to $2.91/mmbtu.

ADP Shows Accelerating Job Growth

Monthly Changes, ths



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