Comerica Economic Alert

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February U.S. Employment

Last Hurdle Cleared for March 15 Fed Rate Hike

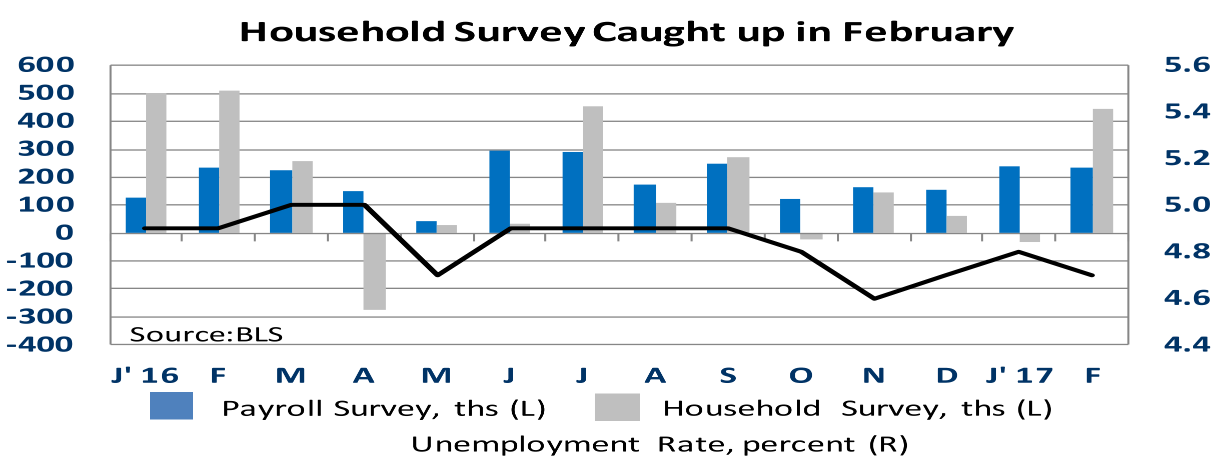
- Payroll Employment increased by 235,000 jobs in February.
- The Unemployment Rate for February dipped to 4.7 percent.
- Average Hourly Earnings increased by 0.2 percent for the month, the average workweek was unchanged.

The official count of payroll jobs for February showed a solid net gain of 235,000, consistent with a variety of other strong labor market indicators. The household survey of employment was also strong, showing a net gain of 447,000 net new jobs after weak results for three out of the previous four months. The bounce-back in employment in the household survey brought the unemployment rate back down to 4.7 percent, after ticking up to 4.8 percent in January. The labor force numbers were also strong, increasing by 340,000, which brought the overall labor force participation rate up to 63.0 percent. Average hourly earnings were not as strong as we expected, increasing by 0.2 percent for the month, and 2.8 percent over the previous 12 months. The average workweek was unchanged at 34.4 hours.

Gains in the establishment data were strong in blue-collar industries. Mining and logging industries increased employment by 9,000 jobs in February, consistent with the increased drilling rig count. Construction was up a strong 58,000. Manufacturing also showed a strong gain of 28,000 net new jobs for the month. Retail trade was weak, losing 26,000 jobs in February, consistent with several announcements of retail store closings after a disappointing shopping season at the malls. Transportation and warehousing added 8,800 jobs. Utilities lost 1,000 jobs. Financial services employment increased by 7,000 jobs. Professional and business services added 37,000 jobs. Education and healthcare gained a vigorous 62,000 net new jobs. Leisure and hospitality employment was up by 26,000 jobs. Government employment increased by 8,000 jobs, held in check by the federal government hiring freeze.

Today's favorable jobs data was the last hurdle for the Federal Reserve to clear before they announce a 25 basis point increase in the fed funds rate range on Wednesday, March 15. The Fed will also release a new "dot plot" and economic projections on Wednesday, and Janet Yellen will have a press conference. With a fed funds rate hike next week a near certainty, the focus is now on forward guidance. If the Fed hikes on Wednesday they will have begun a pattern of raising interest rates every other meeting, and on meetings that coincide with scheduled press conferences. So analysts will be looking for clues in the policy announcement, in the dot plot and in Janet Yellen's answers to reporters' questions about the pacing of interest rate hikes for the remainder of this year. The December 2016 dot plot was consistent with three rate hikes for 2017. We could see the March dot plot shift upward, to be consistent with four rate hikes in 2017. The minutes of the March 14/15 FOMC meeting should prove interesting when they are released on April 5.

Market Reaction: U.S. equity markets opened with gains. The 10-Year T-bond yield is down to 2.59 percent. NYMEX crude oil is up to $49.35/barrel. Natural gas futures are up to $3.09/mmbtu.



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