

#### Contributors

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Chart 1

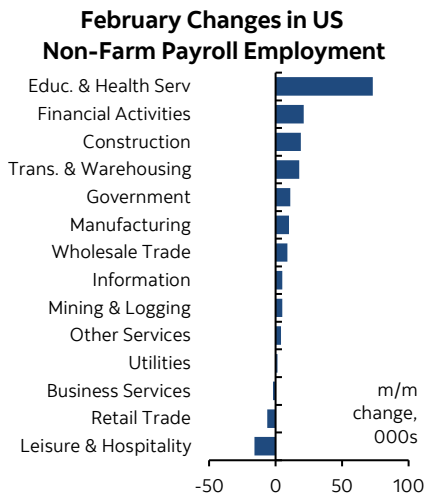
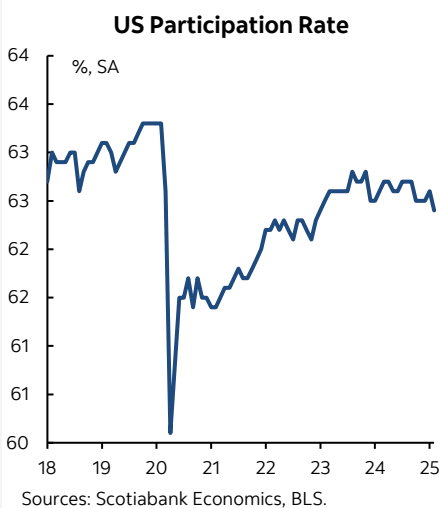


Chart 2



## US Nonfarm Payrolls Should Keep Powell's Focus On Inflation Risk

- Job growth met expectations
- The unemployment rate edged higher
- Wage growth picked up
- Hours worked are reinforcing weak Q1 GDP tracking
- Weather adjustments knocked 190k off job growth so far this year
- A record low seasonal adjustment factor is tough to believe...
- ...but played a dominant role in understating job growth

#### US nonfarm payrolls, m/m 000s // UR %, February, SA:

Actual: 151 / 4.1

Scotia: 140 / 4.1

Consensus: 160 / 4.0

Prior: 125 / 4.0 (revised from 125 / 4.0)

The rise of 151,000 payrolls generally met expectations. There was a wide variation across estimates that ranged from 30k to 300k, but the tally met my expectations and the median consensus estimate. Weather and seasonal adjustments offer two strong reasons to believe that underlying job growth was stronger than it appeared.

Education and health drove most of the gain (chart 1). This measures the private sector readings and the sectors added 73k jobs.

Healthcare and social assistance was up 63k with education up by about 10k. Leisure/hospitality jobs were the only notable decline and probably due to weather.

The unemployment rate edged up a tick above consensus and matching my estimate. That was because the drop in employment derived from the household survey (-588k) exceeded shrinkage in the workforce (-385k). The participation rate has been on a mild downward trend (chart 2).

Revisions were immaterial at -2k to the prior two months combined as an 18k downward revision to January was offset by an upward revision in December.

Government jobs were little changed at +11k. The Federal government shed 10k, but state and local governments added an offsetting 21k. Expect more of this as DOGE cutting hits federal payrolls in future months but downloading of services onto state and local governments may insulate against some of this effect.

Chart 3

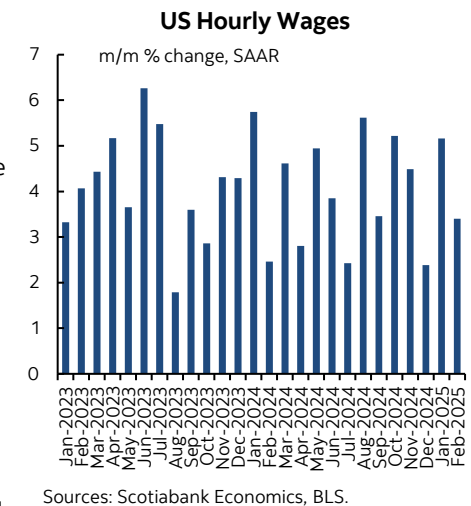
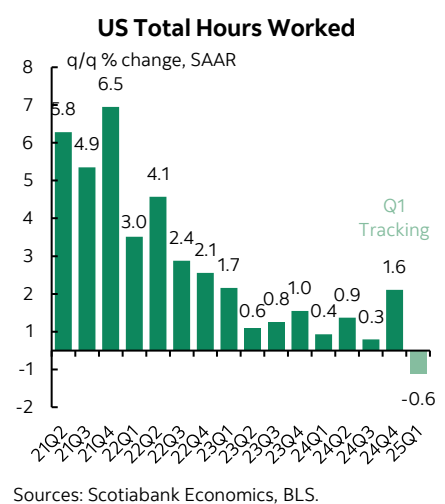


Chart 4



Wage growth landed at 3.4% m/m SAAR which slowed the 3-month moving to 3.65% (chart 3).

Hours worked were little changed at +0.1% m/m SA and are tracking a mild decline of -0.6% q/q SAAR in Q1 (chart 4). This reinforces expectations for Q1 GDP to shrink, as GDP is an identity defined as hours times labour productivity.

### Two Reasons to Ignore the Report

Why ignore? Weather for one. 404,000 Americans were unable to work due to weather which was more than usual for a second straight month. Cold and snow—even in New Orleans!—explained much of this. Chart 5 shows that weather adjustment payrolls would have been about 82k higher last month and 108k higher in January.

Secondly, while the seasonally unadjusted job gain was roughly normal for a month of February (chart 6), the seasonal adjustment factor tamped that down with a record low SA factor (chart 7).

Chart 8 shows what would have happened to job growth at less punishing SA factors. It would have been materially stronger.

Chart 5

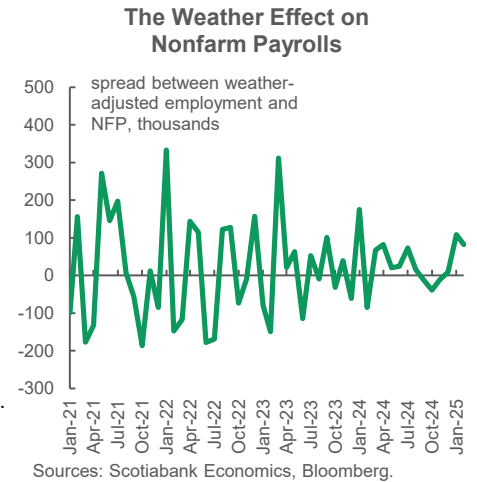


Chart 6

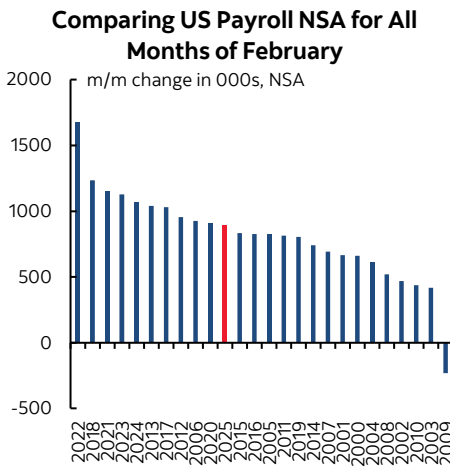


Chart 7

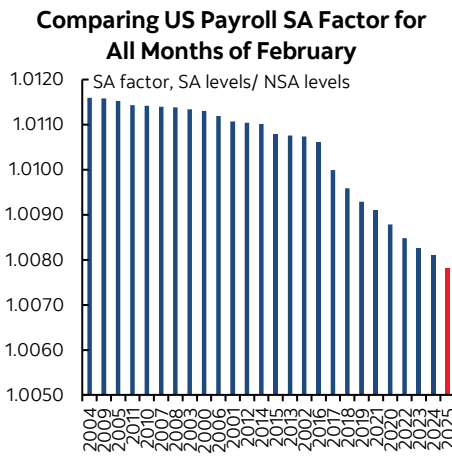
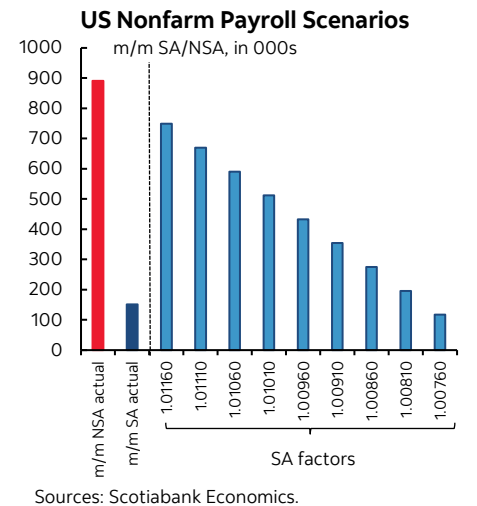


Chart 8



### Markets and the FOMC

There wasn't much of a market reaction in S&P futures after the 8:30amET report, or in two-year Treasury yields. That reflected the lack of any material surprise in the reading.

Fed Chair Powell speaks shortly (12:30pmET) on the economic outlook. I don't think this report will raise any concerns. He likely knows that tighter immigration policy is going to put downward pressure upon the breakeven rate of monthly job creation that preserves a reasonably stable unemployment rate subject to how government job reductions get phased into payrolls relative to private sector momentum. I expect more of his focus will be upon inflation risk and to continue to apply a patient bias.

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