

The February Jobs Report: A Healthier Labor Market Puts The Fed On Solid Ground To Raise Rates

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The U.S. jobs market continued its climb as omicron cases dropped, with job gains up 678,000 in February, according to the Bureau of Labor Statistics' (BLS) jobs report.

This continues to highlight strong U.S. economic activity, as the U.S. drives on to higher ground and puts the pandemic in its rearview mirror.

This much stronger than expected jobs report also puts the Federal Reserve on solid ground to raise rates. We see up to six rate hikes in 2022, with a 25 basis point (bp) hike in March all but certain. However, the Russia-Ukraine arms conflict is a factor the Fed will need to consider when conducting monetary policy for this year and next.

Our Take On The BLS' Jobs Report

Strong February job gains as omicron cases decline sharply. The BLS' nonfarm payrolls gained a much stronger than expected 678,000 jobs in February, with already strong January and December readings revised up to 481,000 and 588,000 job gains, respectively (from 467,000 and 510,000). As omicron's presence dropped in February, workers were able to return to work after apparently being forced to take time off to recover or take care of loved ones in January. Hours worked rose by 0.1 hours to 34.7 hours after falling 0.2 hours to 34.6 hours in January (revised from 34.5 in January). On improving mobility, service-producing industries are closing the gap with goods-producing industries (chart 1).

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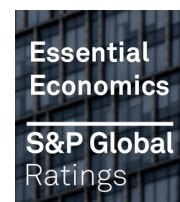
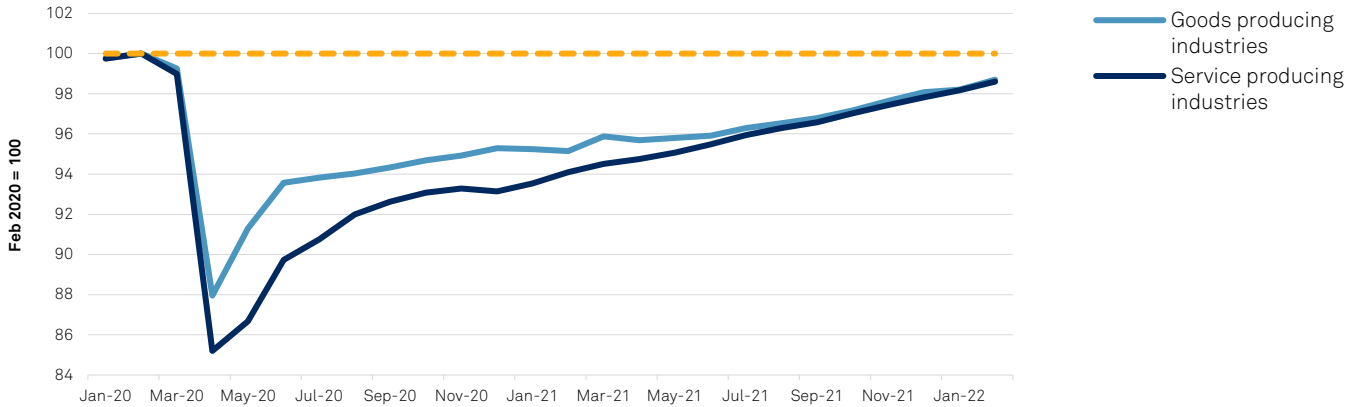


Chart 1

Goods And Services Sector Job Recovery

Services sector catching up to goods producing industries



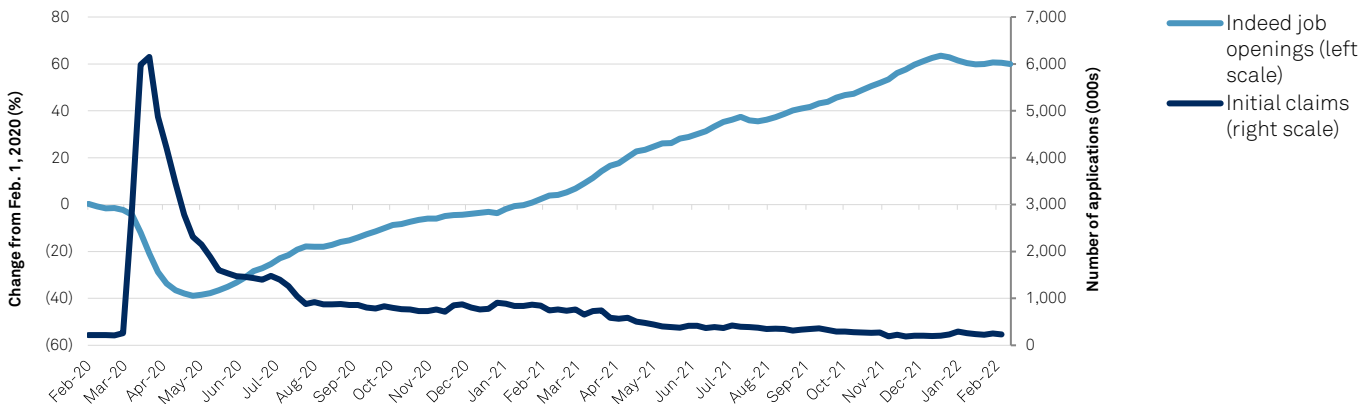
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Inflation and unemployment. The unemployment rate fell to 3.8%, from 4.0% in January, for all the right reasons. 304,000 people entered (or reentered) the work force and 548,000 workers got a job. Initial jobless claims, which moved closer to its 52-year low in early December, and still-high Indeed job postings suggest this momentum will continue into March (chart 2). Worker paychecks saw flat average hourly wages for the month, moderating year-over-year wage gains to a still-large 5.1%, from 5.5% in January. Unfortunately, higher overall price gains will likely take a bite out of paychecks. With the Consumer Price Index at a 40-year high of 7.5% in January on a year-over-year basis and expected to climb even higher in February, real wage growth will likely fall further into negative territory.

Ready for lift off, but the path is uncertain. This healthy jobs report, together with inflation readings reaching multidecade highs, puts the Fed on solid ground to start raising rates. How high the Fed policy rocket will fly depends on inflation dynamics and the economic fallout from the Russian-Ukraine arms conflict, with a 50 bp rate hike off the table in March. Still, based on a strong job market and soaring prices, it's virtually assured that the Fed will "lift off" in March with a 25 bp hike. This will be the first interest rate hike since 2018 and the first of up to six rate hikes that we see for this year.

Chart 2

Job Postings Versus Initial Jobless Claims



Data as of Feb. 25, 2022. Sources: Indeed job postings, Department of Labor, and S&P Global Economics.
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