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February Employment Report

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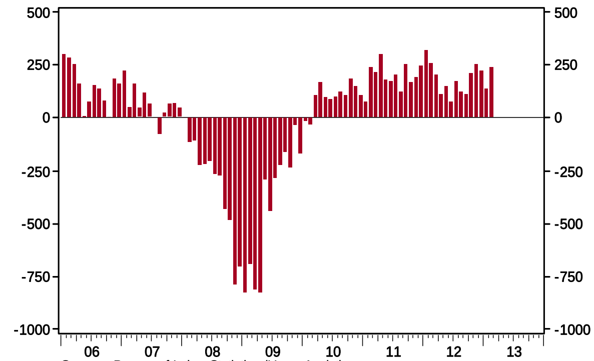
- Non-farm payrolls increased 236,000 in February, easily beating the consensus expected 165,000. Including revisions to prior months, nonfarm payrolls were up 221,000.

- Private sector payrolls increased 246,000 in February, with broad gains led by led by construction (+48,000), administrative & support (+44,000), and health care (+32,000). Government payrolls declined 10,000.

- The unemployment rate fell to 7.7% (7.736%) in February from 7.9% (7.923%) in January.

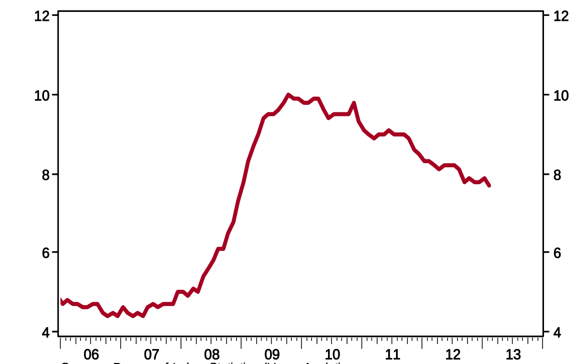
- Average weekly earnings – cash earnings, excluding benefits – were up 0.2% in January and up 2.1% from a year ago.

Change in Total Private Payrolls
SA, Thous



Source: Bureau of Labor Statistics /Haver Analytics

Civilian Unemployment Rate: 16 yr +
SA, %



Source: Bureau of Labor Statistics /Haver Analytics

Implications: Another very solid report on the direction of the labor market: more jobs, more hours per job, and higher wages. Now that uncertainty related to the election and the fiscal cliff are behind us, expect to see more reports like this in 2013. Payroll gains easily beat consensus expectations for February, rising 236,000 (221,000 including revisions to prior months). The payroll gain was corroborated by the household survey, which saw a rise of 170,000 in civilian employment, an alternative measure of jobs that includes small business startups. It's hard to find anything bad on the direction of the labor market. Yes, the labor force contracted by 130,000, driving the labor force participation rate back down to a 63.5% (tying the lowest level since 1981). But the long-term downward trend for participation is largely driven by demographics and started more than a decade ago. Changes in the labor force are very volatile from month to month, but, in the past year, the labor force is up an average of 50,000 per month while the unemployment rate has dropped to 7.7% from 8.3%. In other words, we can't attribute the downward trend in the jobless rate to a shrinking labor force. The big question raised by continued declines in unemployment is how the Federal Reserve will react. It says a jobless rate of 6.5% could get it to start raising rates. But today's report undermines its projection that we won't reach 6.5% until mid-2015; it supports our case for mid-2014. No wonder bond yields jumped on today's report. In the next few weeks we will be watching the Fed closely to see if it starts making up excuses for why it might wait longer to raise rates after we hit 6.5%. Obviously, the labor market is very far from perfect. The unemployment rate is still way too high and, given technological advances, we should be creating more like 300,000 jobs per month, like in the 1990s. What's holding us back is the huge increase in government, particularly transfer payments, over the past several years. Another cause for concern is that in the past twelve months, nonfarm payrolls are up an average of 164,000 while civilian employment is up 115,000. Usually, at this point in the cycle, civilian employment is growing faster than payrolls. On the bright side again, total hours worked are up 1.6% from a year ago, while average hourly earnings are up 2.1%. As a result, total cash earnings are up 3.7% from a year ago (and about 2.0% when adjusted for inflation), so consumers have room to keep increasing spending. The plow horse recovery continues, and he may be picking up his pace.

Employment Report *All Data Seasonally Adjusted*	Feb-13	Jan-13	Dec-12	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**7.7**	7.9	7.8	7.8	7.8	8.0
Civilian Employment (monthly change in thousands)	**170**	-110	31	30	203	115
Nonfarm Payrolls (monthly change in thousands)	**236**	119	219	191	187	164
Construction	**48**	25	38	37	26	12
Manufacturing	**14**	12	13	13	6	9
Retail Trade	**24**	29	6	20	34	21
Finance, Insurance and Real Estate	**7**	6	9	7	8	9
Professional and Business Services	**73**	16	35	41	41	41
Education and Health Services	**24**	9	36	23	28	30
Leisure and Hospitality	**24**	30	40	31	28	27
Government	**-10**	-21	-5	-12	-14	-8
*Avg. Hourly Earnings: Total Private**	**0.2%**	0.1%	0.3%	2.6%	2.5%	2.1%
Avg. Weekly Hours: Total Private	**34.5**	34.4	34.5	34.5	34.4	34.4
*Index of Aggregate Weekly Hours: Total Private**	**0.5%**	-0.2%	0.5%	3.3%	2.7%	1.6%

**3, 6 and 12 month figures are % change annualized*