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February Employment Report

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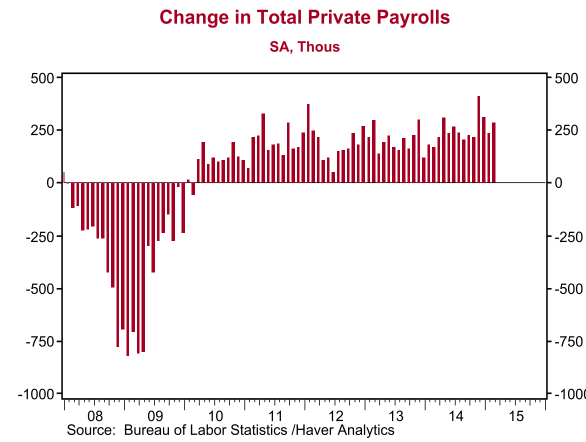
- Nonfarm payrolls increased 295,000 in February (277,000 including revisions to prior months), beating the consensus expected 225,000.
- Private sector payrolls increased 288,000 in February, while December and January were revised down by a combined 31,000. The largest gains were for restaurants & bars (+59,000), education & health (+54,000), professional & tech services (+32,000), retail (+32,000), and construction (+29,000). Manufacturing payrolls increased 8,000 while government grew 7,000.
- The unemployment rate dropped to 5.5% (5.545% unrounded) in February from 5.7% (5.713% unrounded) in January.
- Average hourly earnings – cash earnings, excluding tips, commissions, bonuses, and fringe benefits – increased 0.1% in February and are up 2.0% versus a year ago.



Implications: Like a plow horse, the progress in the labor market didn't stop for bad weather in February. Nonfarm payrolls increased 295,000 in February, the twelfth consecutive month north of 200,000. In the past year, payrolls are up almost 3.3 million, a pace of 275,000 per month. Another good headline is that the unemployment rate fell to 5.5%, the lowest so far in the recovery. However, the drop in the jobless rate was mostly due to a decline in the labor force alongside a tepid 96,000 gain in in civilian employment, an alternative measure of jobs that includes small-business start-ups. No one wants to see a drop in the labor force, but February's data are not an excuse to bemoan the trend in the labor market. The monthly data on civilian employment are volatile and the labor force is up more than a million in the past year while the jobless rate has declined to 5.5% from 6.7%. Due to the drop in the labor force, the participation rate ticked down to 62.8% in February, but has been hovering right around that level for the past eleven months. This is consistent with our view that growing cyclical strength in the labor market is finally offsetting the long-term trend of declining participation due to population aging, overly generous student aid, and easily available disability benefits. Overall, today's report should continue to put pressure on the Federal Reserve to start raising short-term interest rates in June. Although average hourly earnings were up only 0.1% in February, they're up 2% from a year ago. Meanwhile, total hours are up 3.3%. As a result, total cash earnings are up 5.3% from a year ago, which means consumers have plenty of fuel to increase spending. In addition, the share of voluntary job leavers (or "quitters") among the unemployed hit 10.2% in February, the highest since 2008. In the past, Fed Chair Janet Yellen has said a higher quit rate is a sign of strength in the labor market. Although the labor market is gathering strength relative to the current business cycle and the expansion in the previous decade, it still suffers from bad policies that are holding the labor market back from improving even faster. Despite those policies, and little sign they'll be lifted very soon, we continue to expect even more job growth, less unemployment, and faster wage growth in the year ahead.

Employment Report *All Data Seasonally Adjusted*	Feb-15	Jan-15	Dec-14	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**5.5**	5.7	5.6	5.6	5.7	6.0
Civilian Employment (monthly change in thousands)	**96**	434	117	216	258	227
Nonfarm Payrolls (monthly change in thousands)	**295**	239	329	288	293	275
Construction	**29**	49	44	41	31	27
Manufacturing	**8**	21	19	16	21	17
Retail Trade	**32**	28	0	20	30	27
Finance, Insurance and Real Estate	**10**	22	7	13	14	13
Professional and Business Services	**51**	10	72	44	53	55
Education and Health Services	**54**	46	54	51	47	45
Leisure and Hospitality	**66**	39	56	54	51	44
Government	**7**	2	10	6	8	7
*Avg. Hourly Earnings: Total Private**	**0.1%**	0.5%	-0.2%	1.6%	1.9%	2.0%
Avg. Weekly Hours: Total Private	**34.6**	34.6	34.6	34.6	34.6	34.5
*Index of Aggregate Weekly Hours: Total Private**	**0.2%**	0.2%	0.3%	2.8%	3.6%	3.3%

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