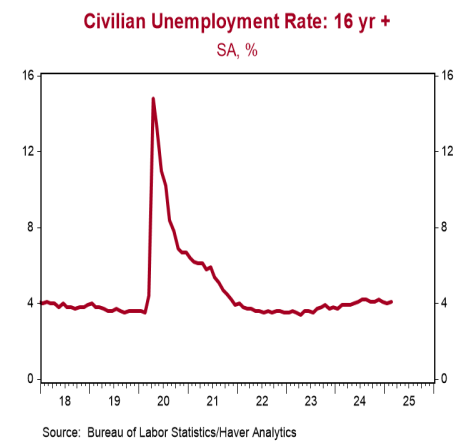
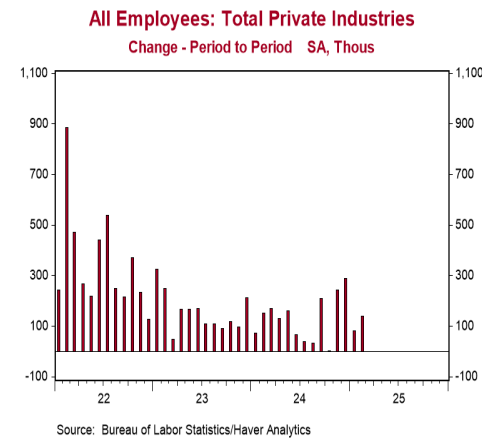


# February Employment Report

Robert Stein, CFA – Dep. Chief Economist  
 Brian S. Wesbury – Chief Economist

- Nonfarm payrolls increased 151,000 in February, narrowly lagging the consensus expected 160,000. Payroll gains for December and January were revised down by a total of 2,000, resulting in a net gain, including revisions, of 149,000.
- Private sector payrolls rose 140,000 in February but were revised down by 16,000 in prior months. The largest gain in February was in health care & social assistance (63,000). Manufacturing rose 10,000 while government increased 11,000.
- The unemployment rate ticked up to 4.1% in February from 4.0% in January.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.3% in February and are up 4.0% versus a year ago. Aggregate hours increased 0.1% in February and are up 0.6% from a year ago.

**Implications:** Payrolls continued to expand in February, but other signals from the labor market show all is not well. Nonfarm payrolls grew 151,000 in February, narrowly missing the consensus expected 160,000. A large part of the gain came from health care and social assistance jobs, up 63,000. Meanwhile, jobs at restaurants & bars dropped 28,000. We like to follow payrolls excluding three sectors: government, education & health services, and leisure & hospitality, all of which are heavily influenced by government spending and regulation (that includes COVID lockdowns and re-openings for leisure & hospitality). In what is probably the best news for February, this “core” measure of jobs rose 83,000, beating the 33,000 monthly average in the past year. However, in what is probably the worst news for February, civilian employment, an alternative measure of jobs that includes small-business start-ups dropped 588,000. As a result, and in spite of a 385,000 drop in the labor force (people who are either working or looking for work), the unemployment rate ticked up to 4.1% versus 4.0% in January. Meanwhile, the U-6 measure of unemployment spiked upward to 8.0% from 7.5%. That measure counts as unemployed not only those normally counted but also those working part-time who say they want full-time jobs as well as “marginally attached” workers, who are unemployed workers who still say they want a job and have looked for one in the past year. Other details in today’s report suggested moderate economic growth, but reasons for the Federal Reserve to be cautious about cutting short-term interest rates. Total hours worked increased 0.1% in February and are up 0.6% in the past year. Add that gain in hours worked to the trend growth rate in productivity (output per hour) of 1.8% per year in the past decade and you get close to 2.5% economic growth. Meanwhile, average hourly earnings rose 0.3% in February and are up 4.0% in the past year. The Fed would probably like to see that annual gain closer to 3.5% before it’s comfortable with the path toward 2.0% inflation. Notably, federal government payrolls (excluding the Post Office) declined 7,000 in February, the largest drop for any month since 2022. Given the Trump Administration’s goal of reducing the federal workforce, we expect more of this in the months ahead, potentially much more. That may cause some short-term pain for the US economy, but we expect long-term gains from reducing the size and scope of the federal government, including more jobs gains in the private sector.



| Employment Report<br><i>All Data Seasonally Adjusted</i> | Feb-25      | Jan-25 | Dec-24 | 3-month<br>moving avg | 6-month<br>moving avg | 12-month<br>moving avg |
|--|-------------|--------|--------|-----------------------|-----------------------|------------------------|
| <b>Unemployment Rate</b>                                 | <b>4.1</b>  | 4.0    | 4.1    | 4.1                   | 4.1                   | 4.1                    |
| <b>Civilian Employment (monthly change in thousands)</b> | <b>-588</b> | 2,234  | 478    | 708                   | 314                   | 191                    |
| <b>Nonfarm Payrolls (monthly change in thousands)</b>    | <b>151</b>  | 125    | 323    | 200                   | 191                   | 162                    |
| <b>Construction</b>                                      | <b>19</b>   | 2      | 15     | 12                    | 12                    | 15                     |
| <b>Manufacturing</b>                                     | <b>10</b>   | -5     | -10    | -2                    | -6                    | -7                     |
| <b>Retail Trade</b>                                      | <b>-6</b>   | 30     | 34     | 19                    | 9                     | 3                      |
| <b>Finance, Insurance and Real Estate</b>                | <b>21</b>   | 14     | 12     | 16                    | 12                    | 7                      |
| <b>Professional and Business Services</b>                | <b>-2</b>   | -39    | 36     | -2                    | -3                    | -7                     |
| <b>Education and Health Services</b>                     | <b>73</b>   | 66     | 83     | 74                    | 80                    | 79                     |
| <b>Leisure and Hospitality</b>                           | <b>-16</b>  | -14    | 47     | 6                     | 22                    | 18                     |
| <b>Government</b>  | <b>11</b>   | 44     | 36     | 30                    | 31                    | 33                     |
| <b>Avg. Hourly Earnings: Total Private*</b>              | <b>0.3%</b> | 0.4%   | 0.2%   | 3.6%                  | 4.0%                  | 4.0%                   |
| <b>Avg. Weekly Hours: Total Private</b>                  | <b>34.1</b> | 34.1   | 34.2   | 34.1                  | 34.2                  | 34.2                   |
| <b>Index of Aggregate Weekly Hours: Total Private*</b>   | <b>0.1%</b> | -0.2%  | -0.1%  | -0.7%                 | 0.3%                  | 0.6%                   |

Source: Bureau of Labor Statistics \*3, 6 and 12 month figures are % change annualized