



US: EMPLOYMENT DODGES A SNOWBALL

- **U.S. payrolls lost only 36K jobs in February, better than expected by the market. The unemployment rate was unchanged at 9.7%.**
- **The effects of weather were only minimally apparent in the numbers, with none of the usual sectors suffering the expected consequences.**
- **Despite the positive surprise, the U.S. labor market remains obviously weak, and inflation pressures are miles away.**

The U.S. labor market dodged a big fat snowball in February, managing to lose only 36K jobs despite a string of major snowstorms that blanketed the nation. When combined with an upward revision of 35K jobs to earlier months, the interpretation is not bad at all. The numbers are unambiguously better than the market had expected, and also better than our own forecast for a 75K drop. The always-volatile household survey managed to add 308K jobs, though we hesitate to dwell excessively on that flighty series. The unemployment rate has remained unchanged at 9.7%.

Payroll reports always attract close scrutiny from the market, but this one was on another order of magnitude due to the uncertain effect that weather would bring to the survey. Indeed, roughly one million people were unable to work due to weather conditions, up from the usual 300K. But this is a deceptive figure, as such individuals are counted as employed in both the payroll and household surveys. They do work fewer hours, obviously, but even this seemed quite muted, with only a 0.3% decline in aggregate hours worked.

Instead, the expected hit from weather was supposed to come in such categories as construction, retail, and temporary workers, where employers might simply decided they did not need as many workers given the often short-term nature of such jobs. Some forecasters had anticipated the temporary loss of as many as 220K jobs. We had assumed a 75K hit. This was not apparent in the actual figures, however.

While the construction industry shed 64K jobs, this was better than the prior month's -77K, and it is impossible to disentangle the weather effect from recent dreary conditions in the housing market more broadly. Retail employment was flat, which is not bad. Even leisure-based employment was up, by 7K. And temporary help gained a big 48K positions -- roughly the same as in the prior two months -- suggesting that the most vulnerable group of workers did just fine.

The expected artificial boost from census hiring was roughly in line with our expectations, at +15K. This will grow significantly in the coming months.

The guts of the report show that the broadest definition of unemployment -- U6 -- edged back upwards from 16.5% to 16.8%. On the other hand, the average duration of unemployment declined for the first time in many months, falling to a still-high 29.7 weeks.

There are several implications from this report. The gut reaction response is that this number could have been a lot worse, and that a serious weather hit was somehow averted. This is unquestionably good news, though it also suggests that the anticipated bounce-back in March might prove more muted than was otherwise expected. Stepping back from the trees to survey the forest, it remains the case that the U.S. job market is quite weak. Steady job gains remain elusive, and will come only slowly when they finally arrive in the coming months. Wage growth of just 1.9% Y/Y is very soft, and when combined with big productivity gains it means that no inflation pressures whatsoever will emerge from the labor market. This report will continue to be debated at length among pundits given the difficulty of extracting a clear interpretation, but nothing in the report will change the Fed's slow trajectory of stimulus unwind.

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