February hiring swamps expectations; what will Fed do?

By KEVIN G. HALL

In this Feb. 6, 2015 photo, U.S. Marine Corps Veteran Arlington Robertson, of Fort Lauderdale, left, hands his resume to an Internal Revenue Service Special Agent, at the annual Veterans Career and Resource Fair in Miami. The Labor Department releases employment data for February on Friday, March 6, 2015.

ALAN DIAZ — AP

- FEBRUARY BY THE NUMBERS:

  - Professional and business services, up 51,000.

  - Manufacturing, up 8,000.

  - Retail, up 32,000.

  - Leisure and hospitality up 66,000.

  - Health care, up 23,800.

  - Finance, up 10,000.

  - Construction, up 29,000.

  - Temporary help services, down 7,800.

  - Transportation and warehousing up 18,500.

  - Government, up 7,000.

WASHINGTON — February marked stronger-than-expected hiring, and both traditional and alternative measures of unemployment reported by the government Friday suggest important improvement.

Employers added 295,000 jobs last month, the Labor Department said, and the unemployment rate fell to 5.5 percent. The report blew past soft expectations from economists, who'd feared that the harsh winter weather gripping the nation would crimp hiring.

“The job market is in full swing. Despite bad weather, a refinery strike and energy layoffs, job gains were boom-like,” said Mark Zandi, chief economist for forecaster Moody's Analytics. “At this pace of job (growth), the labor market is tightening quickly. Wage growth has yet to pick up, but that's coming soon.”

In fact, wage growth slowed last month. Average hourly earnings ticked up just a tenth of a percentage point, after rising half a percentage point in January. This suggests workers still aren't taking more pay home, even as more people are finding jobs.

And the labor force participation rate dropped a tenth of a percentage point, to 62.8 percent, bouncing around a historically low rate in recent months. It means that many workers who exited the labor force in the 2008 crisis aren't yet coming back.

That may soon change, suggested Zandi.

“With the number of job openings at record highs, prospects are good for continued strong gains,” he said. “The gains will moderate from the torrid pace of recent months, but we should see another year of 3 million jobs. This is about as good as it ever gets.”

Some improvement is already showing up in the so-called unofficial jobless rate, which fell from 11.3 percent to 11 percent. This alternative measure from the Bureau of Labor Statistics comprises the unemployed, people working part time but wanting full-time jobs and people who haven't looked for work recently but want to come back into the labor force.

Friday's jobs report puts the Federal Reserve in a bind. The strong hiring argues for the first increase in its benchmark federal funds rate since December 2008, perhaps in June. But a soft global economy, subdued wage growth and low inflation argue against a rate hike before September or even later.

“The report should further ease fears at the Fed that the global downturn and sharp drop in oil prices are materially disrupting the U.S. economic outlook,” said Scott Anderson, chief economist of San Francisco-based Bank of the West, who expects the so-called liftoff in rates in June.

Michelle Meyer, a U.S. economist at Bank of America Merrill Lynch, held the opposite view.

“Stubbornly slow wage growth but exceptionally strong job creation leaves the Fed in a difficult position,” she said, predicting a September liftoff. “We think the Fed stands ready to normalize policy, but will wait until there is evidence of inflation turning higher.”

When the federal funds rate begins to rise, it will increase borrowing costs on mortgages, car loans, credit cards and business lending.

The White House welcomed February’s robust hiring.

“With another strong employment report, we have now seen 12 straight months of private-sector job gains above 200,000 – the first time that has happened since 1977,” said Jason Furman, head of the White House Council of Economic Advisers.

Job gains were across all sectors of the economy.

Leisure and hospitality jobs led the pack, adding 66,000, suggesting that Americans are opening their wallets to eat out and stay at hotels. The white-collar, higher-paying business and professional services sector added a solid 51,000 jobs.

The hard-hit construction sector continued its steady rebound, adding another 29,000 jobs last month.

“Despite challenging weather conditions in much of the country, both the number of workers and their average weekly hours rose last month to the highest levels since the recession,” said Ken Simonson, chief economist of Associated General Contractors of America.

Retailers added a robust 32,000 positions last month, even after the holidays.

“The strength in the February jobs report bodes well for the next few months in terms of expectations for retail sales and even more job growth in the industry,” said Jack Kleinhenz, chief economist for the National Retail Federation.

Manufacturers added a modest 8,000 jobs.

“Overall, these jobs numbers were mostly positive, with the labor market continuing to see progress in the right direction,” Chad Moutray, chief economist for the National Association of Manufacturers, wrote in his blog Shopfloor.org. “There have been several head winds that have negatively impacted demand and output, and this has led to an easing in hiring in February in the sector.”

NOTE: An earlier version of this story incorrectly said January’s numbers were revised up. They were revised down.

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