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Economics Group

Pre-COVID-19, Labor Market Still on Solid Footing

Hiring remained strong in February with employers adding 273K jobs. The bright state is unlikely to last, however, as temperatures return to normal and the impact from COVID-19 containment efforts manifest.

At Least We’re Starting Off in a Good Place

Yes, today’s jobs report is old news. The February employment report covered the week ending the 15th, so before concerns over COVID-19 escalated. But before the recent volatility in financial markets and stepped-up efforts to contain the virus, the labor market was on solid ground. Employers added 273K new jobs last month, nearly 100K more than consensus estimates. Upward revisions to December and January brought the three-month average up to an impressive 243K, while the unemployment rate edged back down to 3.5%.

As with last month, the unseasonably mild winter weather appears to have given some lift to hiring. Construction employment rose by more than 40K for a second consecutive month, while leisure & hospitality hiring increased 51K. Manufacturing jobs rebounded 15K after some uncertainty surrounding trade policy was lifted with the signing of the USMCA and Phase I China deal in January. Government employment also rose by a curiously strong 45K, with only 7K of that coming from temporary Census workers. Therefore, even before accounting for the coronavirus outbreak, payroll growth ex-Census workers looks poised for a sharp slowdown in March.

The Fed is already looking ahead to the ripple effects of efforts to contain COVID-19, so today’s report does not change our assumption for additional easing before the end of Q2. Hiring was resilient through the past two growth scares of the current cycle. But those scares—triggered by uncertainty over trade policy (2019) and commodity prices collapsing (2015-2016)—were centered around goods-producing industries. The COVID-19 environment stands to impact hiring in the service sector much more directly, in addition to dealing another blow to the manufacturing and mining industries. Delayed shipments, canceled travel and forgone outings are ripe to reduce hiring in the months ahead. Hours are also likely to be cut, although there too the starting point looks better with an uptick in February.

In that regard, Census hiring could not be coming at a better time. Even the temporary nature of Census jobs will put some additional income into consumers’ pockets just as labor income from other sources weakens. But aggregate hours worked looks set to slow in the months ahead and contribute to a more modest pace of household income and spending.

Average hourly earnings growth also improved a bit (up 0.3%), but the near-term fundamentals look unfavorable with more tepid demand for workers likely in sectors hit by the coronavirus, on top of what was already a troubling demand picture painted by job openings through December. That said, with the likely disproportionate impact to the leisure & hospitality sector, which pays about 60% of the private sector average, headline hourly wage growth could very well hang within its recent range, if not strengthen.

Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities