February 2020 U.S. Employment Preview

Wells Fargo Securities Economics Group
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February Employment Data are Unlikely to Reflect the Coronavirus Outbreak

- Following a better-than-expected gain to start the year, we look for the pace of nonfarm hiring to remain strong in February, with employers adding 200,000 jobs.
- We do not anticipate a virus-related impact on hiring in February. Concerns over the coronavirus outbreak were not as pronounced during the BLS survey week (the week of February 12th). There has also been nothing to suggest any virus-related hit to hiring has yet materialized.
- Secondary labor market indicators remain mixed, yet still show a labor market that remains healthy. Jobless claims fell in February, remaining low and consistent with a tight labor market. Job openings, however, have rolled over and small business hiring plans remain below last year’s level.
- The unemployment rate should slip back down to its 50-year low of 3.5%. We expect average hourly earnings rose 0.3% in February, which would keep the year-ago rate at 3.0%.
- 2020 Census hiring is beginning to pick up. In the past two Census years, there was an average of 21K average Census workers added in February.

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<th>Payroll Forecast</th>
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<td><strong>2019</strong></td>
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<td><strong>Nonfarm Payrolls</strong></td>
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<td><strong>Private Payrolls</strong></td>
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<td><strong>Average Hourly Earnings, yr/yr</strong></td>
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Source: U.S. Department of Labor, Bloomberg LP and Wells Fargo Securities
Despite the Better Start to the Year, Risks Continue to Tilt to the Downside

**Initial Jobless Claims**

- On balance, initial jobless claims moved lower in February, and remain consistent with a healthy labor market.
- For the week of the BLS’ February payroll survey (week including 12th of the month) claims were up 6,000 compared to January. Claims were down an average 7,250 for the four weeks leading to the survey weak.
- Until we see a sustained upward turn in initial jobless claims, expansion in payrolls and the overall U.S. economy will most likely continue.

**PMI Readings of Employment**

- The ISM manufacturing employment index improved in February, yet remained in contractionary territory for the seventh straight month. Only three of the 18 manufacturing industries reported hiring growth on the month.
- But, the ISM non-manufacturing employment index rebounded to 55.6 in February, the best reading since last July.
- Still, on balance, the ISM and Fed regional surveys support a modest cooling in hiring in coming months.

**Consumers’ Assessment**

- While still elevated, consumers’ assessment of the labor market cooled last month.
- The recent cooling does not appear to be related to coronavirus concerns, though the labor market’s resilience will be tested in the coming months.
- The labor market differential, or the difference between those who view jobs as “plentiful” versus “hard to get,” fell to an eight month low.
- Expectations around future job prospects stayed firm, remaining above last year’s level.

Looking ahead, we expect job gains to slow markedly in 2020, though hiring for the 2020 Census will likely disrupt the quarterly estimates. We estimate it currently takes around 130K jobs per month to reduce the unemployment rate.
Prospects of strengthening wage growth have faded. Restrained productivity, subdued inflation and cooling economic activity are material headwinds to stronger wage growth.

Average Hourly Earnings
Year-over-Year Percent Change

Average Weekly Hours Worked
Private Sector Workers

Source: U.S. Department of Labor and Wells Fargo Securities
The labor market remains strong across most measures, though there are signs of deceleration. Job cuts remain low, though job openings are trending down—recording the largest two-month decline in the series history (data back to 2000).
Resilience in hiring is evident in most private sector industries, with the exception of natural resources & mining.
Year-over-Year Employment Growth – December 2019*

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

*January 2020 state employment data delayed until March 16 due to annual benchmark revisions.
Unemployment Rate by State – December 2019*

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

*January 2020 state employment data delayed until March 16 due to annual benchmark revisions.