Economic Update

March 10, 2023

U.S. payroll (relatively) firm in February

- Payroll employment rose by 311k in February as strong hiring momentum continued
- Details were weaker: the unemployment rate edged higher to 3.6% and wage growth decelerated, again
- Mixed, but on balance positive payroll reaffirms that the Fed will take rates higher

U.S. payroll employment added a stronger-than-expected 311k jobs in February. The increase came after a stellar half a million gain in January and suggests that US labour market has more strength to give, as hiring demand held strong. Notable job gain were seen in leisure and hospitality (+105k) and retail (+50k), offsetting losses in information services (-25k) and transportation and warehousing (-22k). Hours worked ticked slightly lower but that was after a big January surge.

The details however were more mixed than the headline employment gain, with an initial response in markets to push short-run bond yields lower. The unemployment rate is still extremely low but ticked up to 3.6% from a 3.4% level in January. And wage growth continued to slow – month-over-month growth in average hourly earnings was back around the average pace in pre-pandemic 2019 over the last few months. Job openings on balance have also been trending lower.

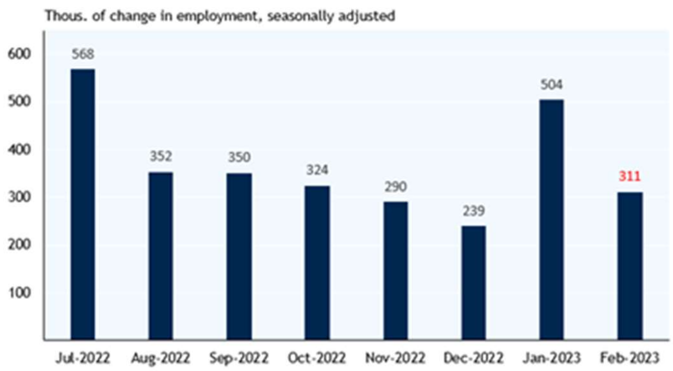
US economic activity in early 2023 has been tracking stronger than expected. That has in turn been putting pressure on the Fed to push interest rates higher. Having already suggested rates will have to go higher than the December dot plot, Powell earlier this week opened the door to 50 bp for the next meeting later this month. We don't think today's report was strong enough to push the Fed for a reacceleration. and expect three more 25 bp rate hikes at each of the upcoming three meetings for the Fed Funds target range to rise to 5.25% - 5.5% in June, before the Fed pauses for a reassessment.

Data Summary:

	Dec-22	Jan-23	Feb-23	Feb-23
	m/m change, thousands			*12mth avg*
Payroll employment	239	504	311	362
Private	232	386	265	327
Public	7	118	46	34
Hourly wages (m/m %)	0.4	0.3	0.2	4.6 (y/y %)
		%		*y/y change*
Unemployment rate	3.5	3.4	3.6	-0.2
U6	6.5	6.6	6.8	-0.4
Participation rate	62.3	62.4	62.5	0.3

Source: Haver, RBC Economics Research

US labour market showing renewed strength in 2023



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