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Markit Economic Research

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United States

Hiring beats expectations in February, but trend weakened by wet weather

- **Non-farm payrolls rise by 175,000 vs expected 149,000 gain**
- **Unemployment rate ticks back up to 6.7%**
- **Fed still likely to continue to taper**

Severe winter weather looks to have less of a dampened effect on hiring by US companies than anticipated. Non-farm payroll rose 175,000 in February, against market expectations of a 149,000 rise. January's tally was increased from 113,000 to a slightly more respectable 129,000.

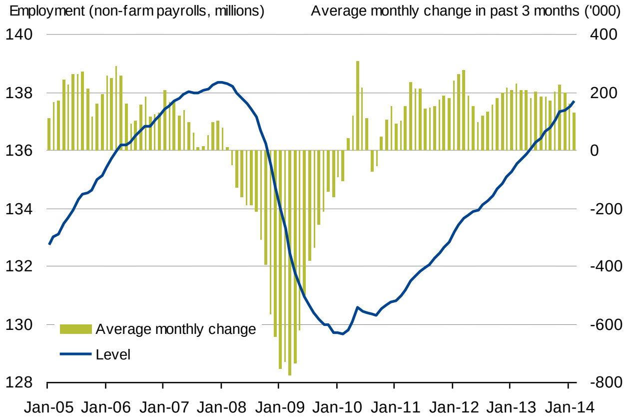
However, the unemployment rate rose from 6.6% to 6.7%, defying expectations of it holding steady. The three-month average in the rate of growth of non-farm payrolls is also the weakest we've seen since July 2012, despite being slightly better in February than economists had projected.

The dilemma facing policymakers is whether this slower hiring trend in recent months is just a symptom of employers not recruiting due to the extreme weather, or if there is a more malign underlying weakening of the economy.

The mixed set of data adds further to suspicions that we will need to wait until the spring until a clear picture of the economy is available, due to the recent weather impact. However, the better than anticipated hiring in February suggests that policymakers at the Fed are likely to be sanguine about the outlook for the economy for the time being, noting that business surveys also provide reassuring evidence that the underlying trends in hiring and economic growth remain robust.

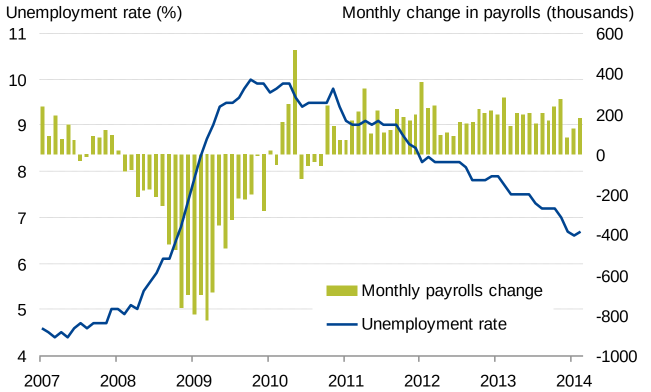
The bar to reviewing the planned taper was already high, given that it could send a message that the Fed is concerned about the impact of prior tapering. The slightly more reassuring payroll trend therefore adds weight to the belief that the Fed will continue to reduce its monthly asset purchases in $10 billion increments, but highlighting how it is watching the dataflow carefully in the event that the business situation fails to recovery satisfactorily from the recent weather-related soft patch.

Three-month trend in payrolls



Sources: BLS (via Ecowin).

Unemployment rate & monthly change in payrolls



Source: BLS (via Ecowin).

Growth to revive

Markit's PMI surveys showed that, with the exception of last October, when the government shutdown hit the economy, the US private sector grew in February at its slowest rate since December 2012. As the survey data stand at the moment, the weather is likely to lead to a disappointing GDP reading for the first quarter, with the manufacturing and service sector PMIs collectively signalling annualised growth of just 1.7% compared to 2.4% in the fourth quarter.

However, many companies directly attributed slower sales and hiring to the extreme weather that continued to plague parts of the country, suggesting a bounce-back should be on the cards in March and April.

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