Jobs leap, markets weep

Markets react badly to upbeat labor report

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USA TODAY

The February jobs report puts some pressure on the Federal Reserve to raise interest rates —but not as much as the headline number might indicate.

The economy added 295,000 jobs in February, blasting past economists' expectations for 240,000 new jobs, the Bureau of Labor Statistics said Friday.

The unemployment rate fell to 5.5% from 5.7% in January. It was the lowest since May 2008, when the rate was 5.4%.

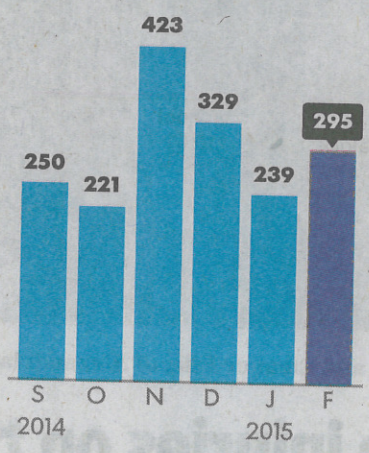
Both stock and bond markets reacted badly to the upbeat employment report. The Dow Jones industrial average fell 278.94 points, or 1.5%, in part because higher interest rates would mean stiffer competition from bonds for investor dollars. The 10-year Treasury note yield rose to 2.25% from 2.11% Thursday.

"This was a very strong employment report, consistent with our longstanding forecast for Fed tightening in June," Maury Harris, economist for UBS, said in a note to clients. The Fed has kept its key short-term fed funds rate at zero since the depths of the financial crisis in December 2008.

But the case for the Federal Reserve raising rates in June isn't airtight. "You have to take the strong payroll numbers with a grain of salt," says Mike Englund, chief economist for Action Economics. He notes that gross domestic product, retail sales and industrial production have all been weak. "The whole mix is not showing much acceleration."

MONTHLY EMPLOYMENT

The change in non-farm jobs from the previous month. Data are seasonally adjusted (in thousands):



Source Bureau of Labor Statistics

Wages, monitored closely by the Federal Reserve, rose just 2% the past 12 months. The Fed watches wages because you can't have a wage-price spiral without rising wages. Currently, there seems little evidence of that.

But even that measure is debatable. The quarterly Employment Cost Index, which is a much better measure of wages and fringe benefits than the monthly average hourly earnings index, has indicated more of an acceleration than average hourly earnings, says PNC Senior Economist Gus Faucher. He expects the Fed to raise rates in June.

Well-paying jobs in oil and gas drilling fell 1,100 in February. And manufacturing hiring slowed markedly, gaining just 8,000 jobs in February, vs. a monthly average of 18,000 in 2014.

After the financial crisis, the unemployment rate peaked at 10% in October 2009.