

## US Daily: February Payrolls Preview (Hill)

- We estimate nonfarm payrolls rose by 215k in February—somewhat above consensus of +200k but well below the +353k pace in January. We believe fewer end-of-year layoffs produced last month's temporary spike, and with the seasonal layoff period now behind us, we assume a return towards a more normal pace of job gains. That said, our forecast also reflects a 30-50k weather boost from workers returning after the mid-January storms. And while Big Data employment indicators indicate a pace of job growth similar to consensus, most of these measures do not generally capture weather effects.
- We estimate that the unemployment rate was unchanged at 3.7%—in line with consensus—reflecting a moderate rise in household employment offset by a 0.1pp rebound in the labor force participation rate to 62.6%. We estimate unchanged average hourly earnings (mom sa) that lower the year-on-year rate by three tenths to +4.2%—below consensus of +0.2% / +4.3%—reflecting a 0.2pp drag on the monthly rate from the reversal of January's weather-related distortions. We also believe upward wage pressures continue to ease.

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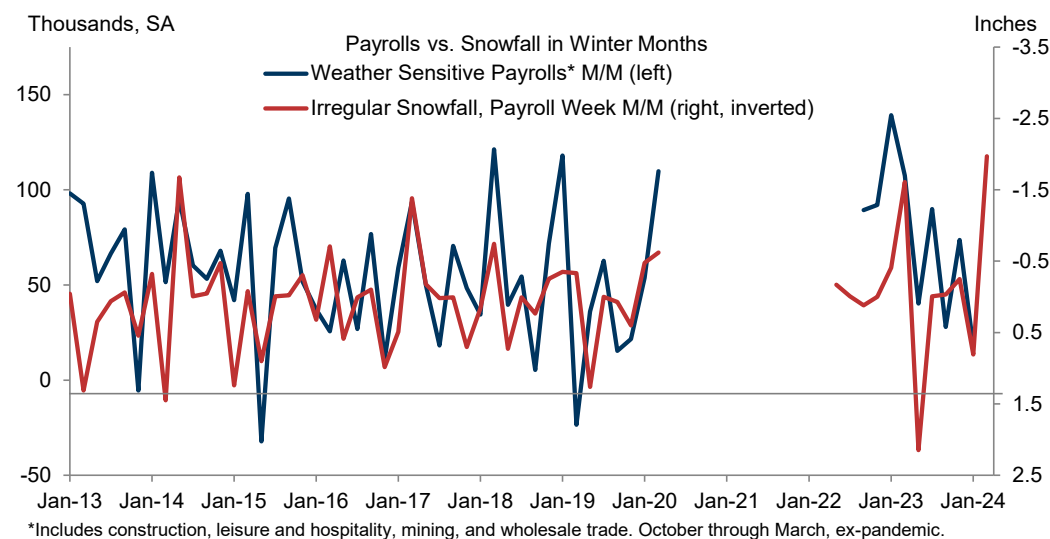
## February Payrolls Preview

We estimate nonfarm payrolls rose 215k in February (mom sa), somewhat above consensus of +200k but a slowdown from the 353k jump in January and the 227k average pace in Q4. We estimate private payrolls rose 175k (vs. consensus +163k).

Arguing for a stronger-than-expected report:

- **Weather.** Cold, snowy weather likely weighed on January payrolls, with construction, leisure and hospitality, mining, and wholesale trade payrolls together rising just +18k—46k below the three-month trend (see final blue datapoint in Exhibit 1). While another winter storm briefly affected parts of the Northeast during the February survey week, nationwide snowfall nonetheless declined by more than usual relative to January (see final red data point, inverted). We assume a 30-50k boost from weather in tomorrow's report (mom sa) based on the assumption that most of the workers who missed work in January returned for at least some of the February survey week.

**Exhibit 1: We Expect a Payroll Boost from a Positive Swing in the Weather**



Source: GS DataWorks, Department of Labor, Goldman Sachs Global Investment Research

- **Job availability.** JOLTS job openings decreased by 26k month-over-month to 8.9mn in January and online measures have also trended lower. While labor demand has fallen meaningfully on net, it remains elevated by 1-2mn relative to 2019 and represents a positive factor for job growth, in our view. Additionally, the Conference Board labor differential—the difference between the percent of respondents saying jobs are plentiful and those saying jobs are hard to get—decreased by 3.9pt to +27.8 in February.

Arguing for a weaker-than-expected report:

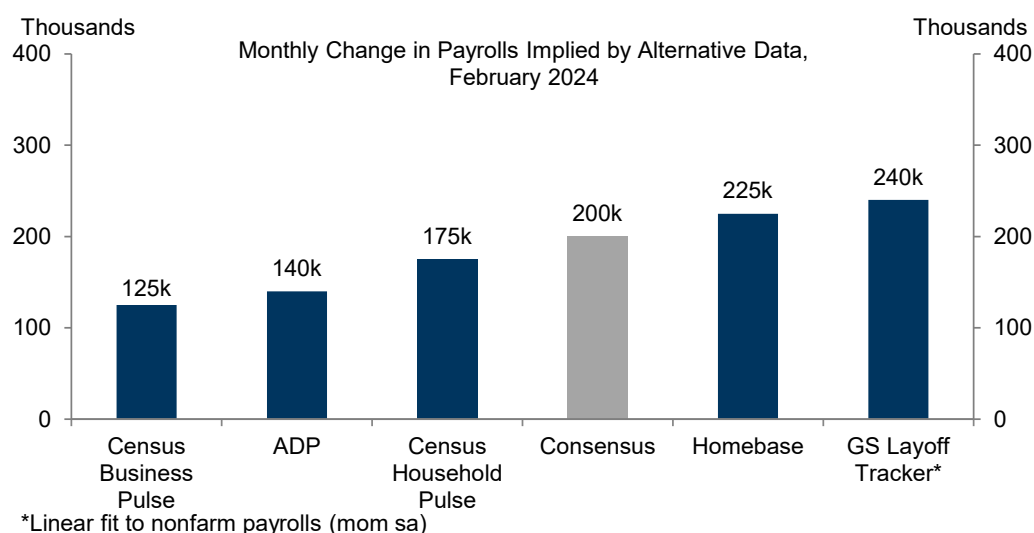
- **Employer surveys.** The employment components of business surveys were mixed

but generally remained at contractionary levels in February. The employment component of our manufacturing survey tracker increased 0.7pt to 48.2 while the employment component of our services survey tracker declined 0.6pt to 49.6. Both trackers remain below their 2018-2019 average levels of 55.3 and 56.6, respectively.

Neutral/mixed factors:

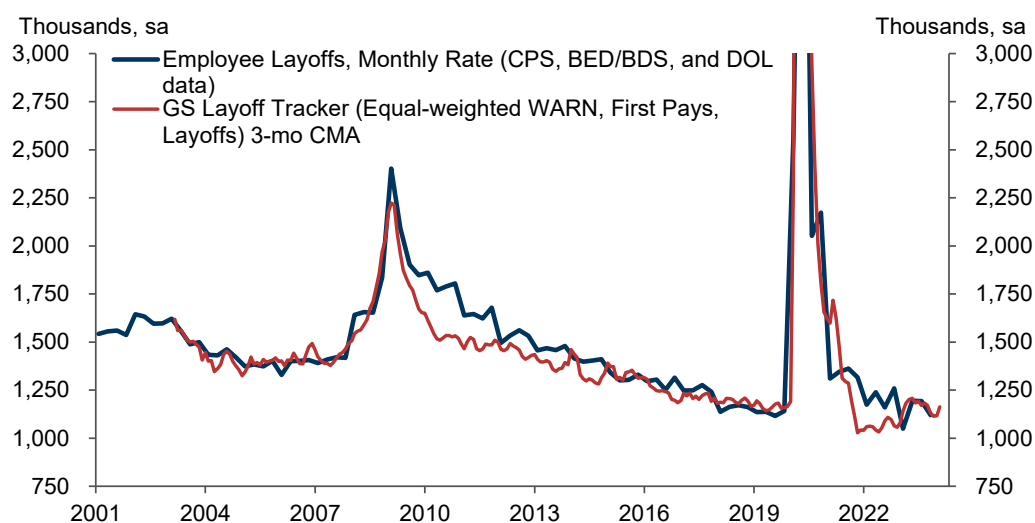
- **Big Data.** Big Data employment indicators were solid or strong in February, with an average pace of +181k across the four indicators we track (see Exhibit 2), up from +172k in January. However, with the exception of Homebase, these indicators generally do not capture weather effects and therefore may have underperformed nonfarm payrolls in February.

**Exhibit 2: Big Data Indicates Solid or Strong Job Growth in February**



Source: Department of Commerce, ADP, Bloomberg, Homebase, Goldman Sachs Global Investment Research

- **Layoffs.** Layoff activity remained low, with our GS layoff tracker rising slightly to 1.2mn layoffs in February (sa, see Exhibit 3). That being said, the period of seasonally elevated layoffs at the turn of the year is now behind us, which implies that the pace of layoffs will be a less important determinant of net job gains in February than in January.

**Exhibit 3: The Pace of Layoffs Remains Low**

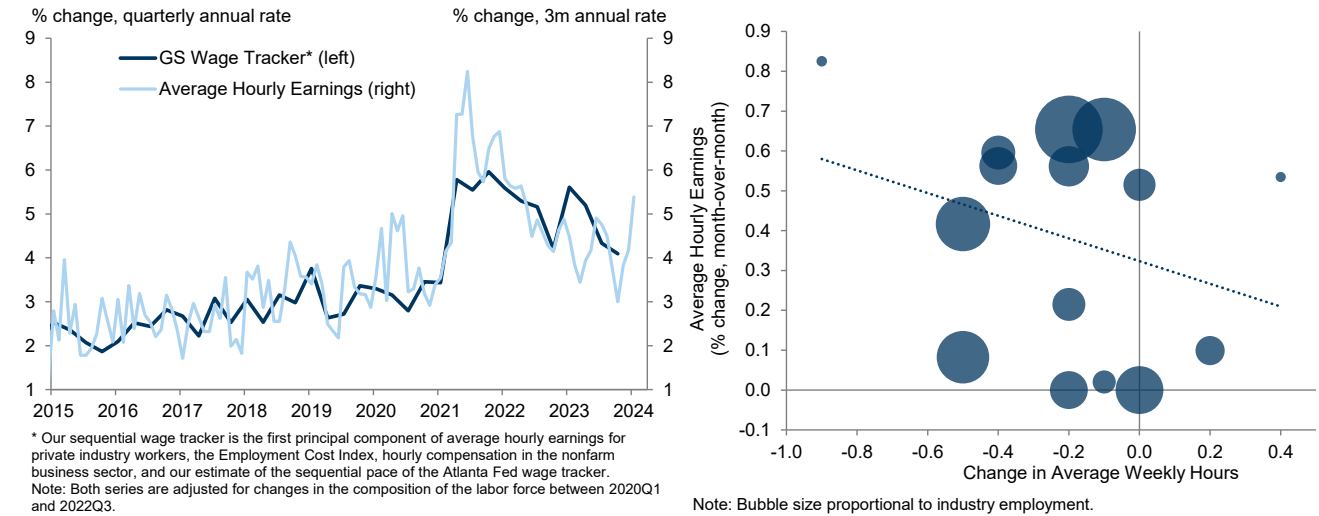
Source: Department of Commerce, Department of Labor, Bloomberg, Goldman Sachs Global Investment Research

- **Jobless claims.** Initial jobless claims increased to an average of 215k in the February payroll month, up from 204k in January and 225k on average in 2023. The JOLTS layoff rate was unchanged at low levels (1.0%) in January. Announced layoffs reported by Challenger, Gray & Christmas increased by 19k in February to 80k (SA by GS), compared to 54k on average in the second half of 2023.

We estimate that the unemployment rate was unchanged at 3.7%—in line with consensus. Our forecast reflects a moderate rise in household employment offset by a 0.1pp rebound in the labor force participation rate to 62.6%, which would partially reverse its 0.3pp decline since November. We also continue to expect a labor supply tailwind from immigration worth 30-50k workers per month, relative to the long-term trend. (Unlike payrolls, the unemployment and participation rates are not directly affected by severe weather.)

We estimate unchanged average hourly earnings (mom sa) that lower the year-on-year rate by three tenths to +4.2%—below consensus of +0.2% and +4.3%, respectively. As shown in the left panel of Exhibit 4, average hourly earnings jumped 0.6% in January (mom sa) and diverged from other wage measures. While start-of-year wage increases may have contributed, we believe severe weather was the more important driver. Paid wages tend to be “stickier” than reported hours, and weather-sensitive sectors such as construction, mining, and leisure and hospitality saw large declines in hours and sizeable increases in average hourly earnings. Indeed, as shown in the right panel of Exhibit 4, seven of the nine sectors that showed sequential AHE strength also exhibited a decline in the workweek.

Exhibit 4: We Expect Payback from the Weather-Driven Spike in January Average Hourly Earnings



Source: Department of Labor, Goldman Sachs Global Investment Research

Our forecast assumes a 0.2pp drag on month-over-month average hourly earnings growth in tomorrow’s report from the reversal of January’s weather-related distortions. We also note that the ADP measure of wage growth slowed further in February (-0.1pp to +5.1% yoy for job stayers, compared to +6.9% in the first half of the 2023). We see calendar effects as neutral this month (the survey week ended on the 17<sup>th</sup>).

**Spencer Hill**

# Disclosure Appendix

## Reg AC

We, Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, CFA, Ronnie Walker, Manuel Abecasis, Tim Krupa, Elsie Peng and Jessica Rindels, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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