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February Employment Report: The “New Normal” For Nonfarm Payrolls?

- › Nonfarm employment fell by 92,000 jobs in February; prior estimates for December and January were revised down by a net 69,000 jobs
- › Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.3 percent (up 4.4 percent year-on-year)
- › The unemployment rate rose to 4.4 percent in February (4.441 percent, unrounded); the broader U6 measure fell to 7.9 percent

Total nonfarm payrolls fell by 92,000 jobs in February which, literally, no one saw coming, with private sector payrolls down by 86,000 jobs and public sector payrolls down by 6,000 jobs on a further decline in the size of the federal government workforce. At the same time, prior estimates of job growth over December and January were revised down by a net 69,000 jobs for the two-month period. Average hourly earnings rose by 0.4 percent, leaving them up 3.8 percent year-on-year, while aggregate private sector wage and salary earnings, by far the more relevant metric, were up 0.3 percent in February and up 4.4 percent year-on-year. The unemployment rate rose to 4.4 percent while the broader U6 rate, which also accounts for underemployment, fell to 7.9 percent from 8.1 percent in January. Note that the February household survey data incorporate the updated population controls consistent with the Census Bureau’s 2025 vintage population data which showed a significant drop-off in net international in-migration, and BLS revised the January data to also be consistent with the new population controls. One reflection of this is that is now a meaningfully lower labor force participation rate.

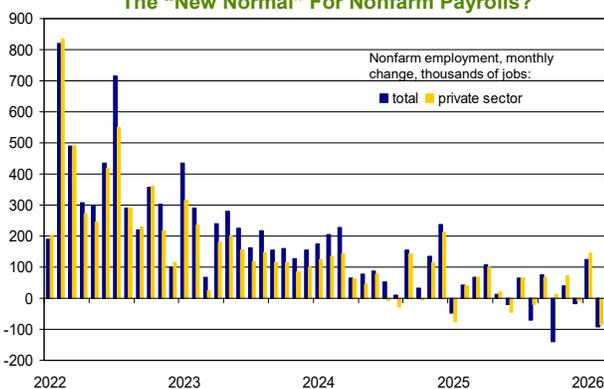
Recall that a month ago we and many others expressed some reservation about the initial estimate of January job growth. The downward revision to that estimate suggests those reservations were well founded. Along those same lines, while the February employment report came as a shock, there is little to suggest the labor market suddenly disintegrated in the interim. A strike amongst Kaiser Permanente workers knocked roughly 30,000 jobs off healthcare payrolls – we just flat out missed this one, perhaps in part because it mainly impacted workers in California and Hawaii. Those jobs will come back on the books in the March data. Also, while the timing was unclear, UPS recently announced another wave of layoffs as part of ongoing restructuring, and it appears many of those hit the books in February, as not seasonally adjusted payrolls amongst courier and delivery services declined by 75,600 jobs. Obviously that number goes well beyond what was announced by UPS, but keep in mind February is a month in which unadjusted payrolls in this industry group typically decline. The point here is that the decline this February is much larger than the typical February decline, which is where UPS likely

comes into play. Further, there are signs that atypically harsh winter weather impacted the labor market, as the combined number of people either working fewer hours than normal or not at work at all is larger than typical for the month; not seasonally adjusted construction payrolls show signs of this. And, under the heading of “here we go again,” the initial collection rate for the February establishment survey was just 57.7 percent, the lowest February rate since 2000. This in part reflects the February survey period having ended so early – prior to mid-month – in the month, which typically biases survey response rates lower. We think it also worth noting that February brought a sharp decline in the number of those working part-time for economic reasons, including the number doing so due to slack business conditions, after like-sized declines in January. These sharp declines over the past two months are consistent with our premise that the pace of economic activity had begun to reaccelerate by year-end 2025 and that carried into 2026.

We also think the 2025 vintage population data and the revised household survey population controls merit mention. We’ve consistently argued that a meaningful outflow of foreign born labor was a primary culprit in the marked deceleration in trend job growth but also argued that would not be fully accounted for in the household survey data until the 2025 vintage population data were incorporated. That now has happened, and while not directly comparable across years, the size of the labor force is now smaller than had been reported in the data prior to the updated population controls. One reason this matters is that the “breakeven” pace of job growth, i.e., the pace of job growth required to keep the unemployment rate steady, is now considerably lower than has for some time been the case, perhaps as low as 30,000-40,000 jobs per month. Even with all the caveats around the February print, that’s in line with average private sector job growth over the past six months, i.e., 34,000 jobs per month. With a rate this low, the typical fluctuations in month-to-month job growth could, rather than simply yielding smaller gains, could instead yield a repetitive pattern of small advances and declines. While we continue to think we’ll see some firming in job growth in the months ahead, this pattern may be the new normal for nonfarm payrolls.



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Part-Time For Economic Reasons
three-month moving averages, millions of people

