INCOME INVESTING

Payroll Growth Jumps in February; Unemployment Flat as Wages Slip

By Amey Stone

March 4, 2016, 4:45 P.M. ET

The U.S. added 242,000 jobs in February, many more than January and also a jump from economists' predictions that 195,000 new jobs were created last month. The unemployment rate stayed steady at 4.9%.

But there were some weak spots in the Labor Department's 8:30 a.m. ET release. Average hourly earnings declined 0.1% when they were expected to grow 0.2%. Over the past year, wages have grown just 2.2%. January's report boasted 2.5% annual wage growth. Also troubling: hours worked fell to 34.4, the lowest in two years.

"It was overall a good report, but not great," sums up **Kathy Jones, fixed income strategist at Charles Schwab**. "We're getting more jobs, but they are in lower-paying industries with more part-time work. In aggregate, that doesn't put more money in peoples' pockets to spend and stimulate growth."

Peter Boockvar of The Lindsey Group notes that job gains were concentrated in the service sector, where education and health jobs increased. But manufacturers shed 16,000 positions, the most since August.

Stocks rose and bond prices fell immediately after the report, but then vacillated as investors ultimately judged the report to be mixed. Treasury yields (which move inversely to prices) rose on both the benchmark 10-year Treasury note and the two-year note. The 10-year closed at 1.88%, up from 1.83%, four basis points higher than Thursday's close. The two-year note climbed to .87%, a more modest increase.

“It looks like the market doesn’t know what to make of the report,” **Michael Arone, chief investment strategist at State Street Global Advisors**, told *Barron’s* Friday morning as markets wavered. He thinks the strong jobs number will lead to more chatter about the Fed hiking rates this year, but he still doesn’t think economic growth will support a hike until late this year at the soonest.

Strategists agree that since the report indicates a healthy labor market, it complicates the Federal Reserve’s decisions about interest rate policy this year. Fed funds futures have priced in only a 6% probability of a rate hike in March, but it jumps to 50% for the September meeting, points out **Kevin Giddis of Raymond James**.

Michelle Girard, economist for RBS Securities writes:

While the results will not accelerate the timetable for Fed action forward, they show that concerns over recession are overblown and it is premature to conclude the Fed will not hike again this year.

The prior month’s job figure was revised up. January non-farm payrolls were increased to 172,000 from 151,000 originally reported. That number that was mildly disappointing last month.

“The Fed said they will remain data dependent,” **John Petrides of Point View Wealth Management** wrote to *Barron’s*. “This number surely makes their decision and language interesting. It should also squelch the noise of those who think the Fed needs to adopt a negative interest rate policy.”