235,000 New Jobs in February, Far Exceeding Expectations

Last Friday's numbers from the Bureau of Labor Statistics (BLS) were predicted a day earlier by ADP/Moody's Analytics, which said that private payrolls in February jumped by 235,000. But few expected the BLS to report what one surprised forecaster called "unbelievably strong" new jobs numbers. Further, the Labor Department said that its jobs reports for December and January understated the reality, adjusting those two months' reports upward by another 54,000 jobs.

The economy continues to gain strength. U.S. employers have added new people to their payrolls for 89 straight months, way ahead of 2017's monthly average. The gain in February was the strongest of any month since July 2016. And the gains were all across the board: mining, construction, manufacturing, wholesale and retail trade, transportation, warehousing, financial services, education, health services, and leisure and hospitality employment all jumped in February.

Unemployment is at 4.1 percent — a record low — as more people are entering the workforce to take those new jobs. Although neither ADP nor the BLS track those coming off of welfare rolls, it is clear that many are deciding to go back to work and earn a real paycheck. That includes more than a million women who have entered the workforce over the past year. The BLS reported that the number of long-term unemployed dropped by 369,000 in February, reflecting the reentry of many back into the labor force. And the labor force "participation" rate understandably increased reflecting those new entrants.

Mark Zandi, the establishment economist who is always asked for his opinion when the ADP/Moody's reports come out (he works for Moody's), was the only "expert" to warn about the economy possibly becoming "overheated." On Thursday he said "the job market is red hot and threatens to overheat."

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What he's looking for is wage increases that portend price increases that he incorrectly defines as inflation. Inflation is a tool of the Federal Reserve System used to "juice" the economy, according to Keynesian ideology. But the Fed has been remarkably quiet since 2014, and is slowly unwinding a little of its enormous balance sheet by not repurchasing bonds when they mature. Effectively, then, the Fed is actually slowly removing excess credit from the economy rather than adding to it.

Its reticence shows up in quiescent price increases that average just under two percent annually at present. With wage increases year-over-year of 2.6 percent, according to the BLS, workers are staying ahead of those price increases.

Add in bonuses, tax breaks, and new capital investment as billions that were headed to Washington as tax revenues are being reinvested in the economy, and the economy — and the stock market — are both likely to continue to move higher.

March 9 is the ninth birthday of the recovery from the Great Recession. At its lowest, the Dow was at 7,380, while the Standard & Poor's 500 Index was at 773. Today, the Dow is trading above 25,000, while the S&P 500 Index is closing in on 2,800.

Looking at all these numbers, market watcher Akane Otani claims that "it's tough to argue that the end of the bull run [in stocks] is imminent." According to FactSet, companies in the S&P 500 Index are on track to report earnings growth of 15 percent ahead of last year. And that doesn't include the tailwind provided by those tax breaks: bonuses and reinvested capital by companies enjoying a much lower tax rate on their profits.

For those who believe Otani and FactSet, the future looks rosy. So far this year, even after the recent sharp selloff in stocks, the S&P 500 Index is up 2.4 percent for the year while the Nasdaq (more heavily weighted toward technology stocks) is ahead by 7.6 percent. Extending those gains on a straight line into the future, 2018 could generate returns close to those enjoyed by investors last year. Add in some upside surprises — such as foreign capital coming into the United States as the nation offers more favorable tax rates — and investors and workers are likely to be amply awarded.

No, Mr. Zandi, the economy isn't becoming "overheated." It is just now regaining its footing after years of suffering under politicians who viewed it as a milk cow for government spending. Instead, the U.S. economy is the engine driving a higher standard of living for everyone who is involved in it.

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*