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EMPLOYMENT MEMO 3/6/26

We predict a positive surprise. We expect job growth above consensus, an unemployment rate below consensus, and annual wage gains below consensus. Specifically, we project non-farm employment gains of 90,000, an unemployment rate of 4.2%, and annual average hourly earnings growth of 3.6%.

The Bureau of Labor Statistics releases its February 2026 Employment Situation Report on March 6th, 2026. The Dow Jones consensus forecast shows consensus job growth of 50,000, an unemployment rate of 4.3%, and annual wage gains of 3.7%.¹ Despite this, economists from many Wall Street banks estimate that the February employment report will show a slowdown in jobs growth from January's 130,000 to a [25,000, 35,000] range.² Yet, Federal Reserve officials think that "the labor market likely would stabilize and then improve this year".³

We are above consensus on jobs growth due to a still strong U.S. economy and a continued normalization from pandemic era shocks. Heading into the start of 2026, the U.S. real economy grew at an annual rate of 1.4%, with real final sales to private domestic purchasers, a more accurate indicator of underlying aggregate demand, growing 2.4% in the 4th quarter.⁴ Overall, in 2025, U.S. real GDP increased 2.2%, above the Fed's longer run estimate for the U.S. economy.⁵ This economic strength causes and reflects a solid labor market. Furthermore, JOLTS data continue to show a viscous labor market, implying stability for the time being.⁶ As a note, the Kaiser Permanente strike may depress the headline number, but the strike ended on February 24th, 2026 and will be reconciled in March's report. As such, it does not affect our call.

We are below consensus on wage growth due to a continued environment of "low hire, low fire" dynamics. Workers are being let go and hired at a rate consistent with pre-pandemic levels. This should imply that wage gains would head to levels consistent with pre-pandemic trends. This seems to be the case.⁷ Furthermore, inflation has come down substantially from its peak.⁸ Absent higher inflation or higher labor market turnover, wage gains should continue to decelerate.

We are below consensus on the unemployment rate because the household survey has been unambiguously strong and the underlying data support a continued decline. In January,

¹ "Employment Report and Retail Sales on the Docket: Data Week Ahead," Morningstar, March 4, 2026, <https://www.morningstar.com/news/dow-jones/202603046169/employment-report-and-retail-sales-on-the-docket-data-week-ahead>.

² Kiplinger, "Jobs Report: What to Expect from the February Employment Data," March 4, 2026, <https://www.kiplinger.com/investing/economy/jobs-report-february-2026-what-to-expect>.

³ Board of Governors of the Federal Reserve System, "Minutes of the Federal Open Market Committee, January 27–28, 2026," February 18, 2026, <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20260128.pdf>.

⁴ Bureau of Economic Analysis, "Gross Domestic Product, Fourth Quarter and Year 2025 (Advance Estimate)," U.S. Department of Commerce, January 29, 2026, <https://www.bea.gov/sites/default/files/2026-02/gdp4q25-adv.pdf>.

⁵ Board of Governors of the Federal Reserve System, "Summary of Economic Projections," December 10, 2025, <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtab120251210.pdf>.

⁶ Bureau of Labor Statistics, "Graphics for Economic News Releases," U.S. Department of Labor, accessed March 4, 2026, <https://www.bls.gov/charts/home.htm>.

⁷ U.S. Bureau of Labor Statistics, "Average Hourly Earnings of All Employees, Total Private [CES0500000003]," retrieved from FRED, Federal Reserve Bank of St. Louis, March 5, 2026, <https://fred.stlouisfed.org/series/CES0500000003>.

⁸ Federal Reserve Bank of St. Louis, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL] and Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index) [PCEPHE]," retrieved from FRED, March 5, 2026, <https://fred.stlouisfed.org/graph/?g=1wmdD>.

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household survey employment rose by 528,000, prime-age labor force participation reached its highest level in nearly 25 years, and flows from employment to unemployment fell sharply.⁹ While the BLS is introducing annual population control adjustments with the February release, which could introduce volatility, this should be negligible and we believe that the underlying trend is downward. Initial jobless claims have remained contained at 213,000 as of early March, and the broader U-6 measure fell from 8.4% to 8.0% in January, reinforcing that labor market slack is narrowing rather than widening.^{10,11}

Finally, we expect job growth over the medium term to continue to normalize to a new post-pandemic level similar to pre-pandemic levels. The labor market experienced major shocks as a result of the pandemic, reflected starkly in the JOLTS data.¹² The past year or two has seen the labor market slowly revert to pre-pandemic behavior, with job growth moderating, the unemployment rate leveling off, and wage gains cooling. We forecast this to largely continue. The economy faces much uncertainty related to, in our view, a higher r-star, AI productivity impacts, swiftly changing U.S. policy, and geopolitical events in the foreseeable future. We remain confident, however, that the U.S. economy will power ahead, as it always has, based on a durable U.S. consumer and structural U.S. economic advantages leading to healthy job growth on and over the horizon.¹³

⁹ Bureau of Labor Statistics, "The Employment Situation—January 2026," news release, U.S. Department of Labor, February 11, 2026, <https://www.bls.gov/news.release/pdf/empsit.pdf>.

¹⁰ U.S. Employment and Training Administration, "Initial Claims [ICSA]," retrieved from FRED, Federal Reserve Bank of St. Louis, March 5, 2026, <https://fred.stlouisfed.org/series/ICSA>.

¹¹ U.S. Bureau of Labor Statistics, "Total Unemployed, Plus All Persons Marginally Attached to the Labor Force, Plus Total Employed Part Time for Economic Reasons, as a Percent of the Civilian Labor Force Plus All Persons Marginally Attached to the Labor Force (U-6) [U6RATE]," retrieved from FRED, Federal Reserve Bank of St. Louis, March 5, 2026, <https://fred.stlouisfed.org/series/U6RATE>.

¹² Bureau of Labor Statistics, "Economic Charts."

¹³ Akrur Barua and Shruthi Mathew, "State of the US Consumer," Deloitte Insights, accessed March 4, 2026, <https://www.deloitte.com/us/en/insights/topics/economy/consumer-pulse/state-of-the-us-consumer.html>.

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