Economic Indicator — March 6, 2026

February Employment: What the Jobs Report Giveth, It Taketh Away

Solid job growth in January gave way to a 92K *decline* in nonfarm payrolls in February. Private payrolls fell by a similar 86K, the largest decline in private employment since December 2020. Some of this weakness can be attributed to one-off factors, such as poor weather and strikes. But even excluding these factors, February employment growth along with downward revisions to the prior two months leaves job growth weak. The moderation cannot be attributed fully to slower supply growth as the unemployment rate climbed to a "high" 4.4% (4.44% unrounded).

Today's data will challenge what was a growing view among Fed officials that the labor market is stabilizing, and the Iran conflict further compounds the outlook. Ultimately, the Federal Reserve cannot do much to combat higher inflation from a supply-side oil price shock. Yet, the inflationary impact of the conflict in Iran makes it harder to be a dove at the moment. On balance, we expect the FOMC to remain in wait-and-see mode, and our forecast for 50 bps of rate cuts this year remains unchanged.

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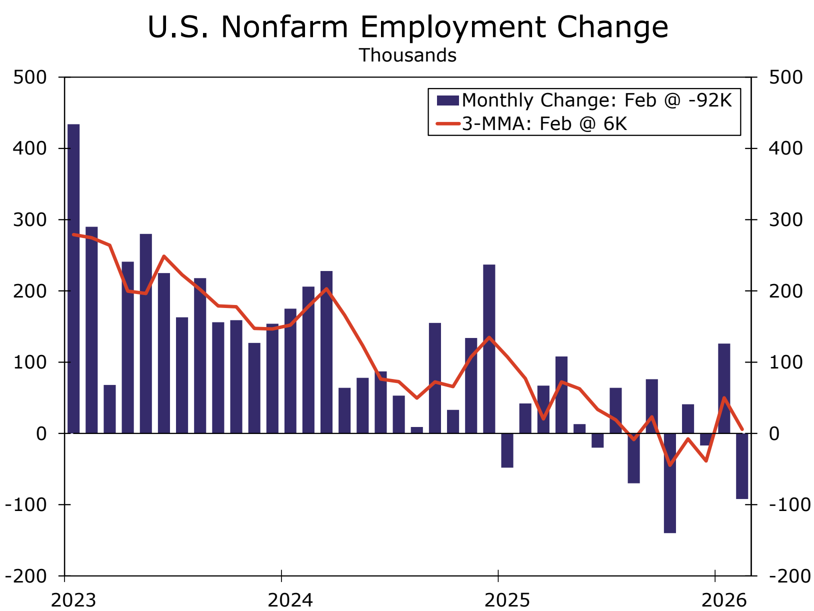
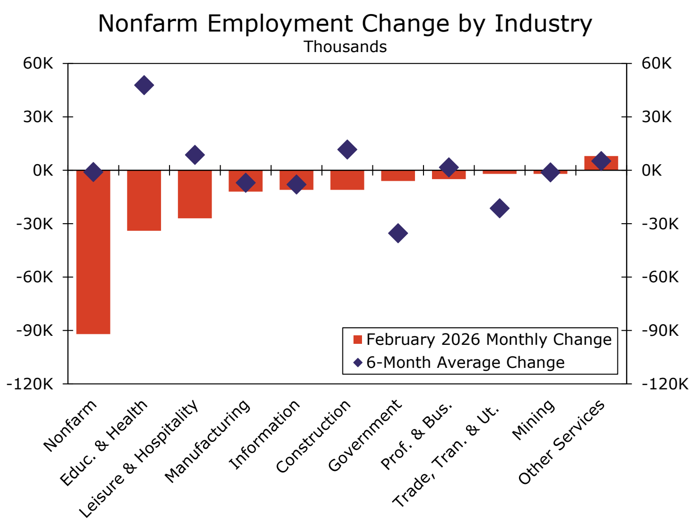


Source: U.S. Department of Labor and Wells Fargo Economics

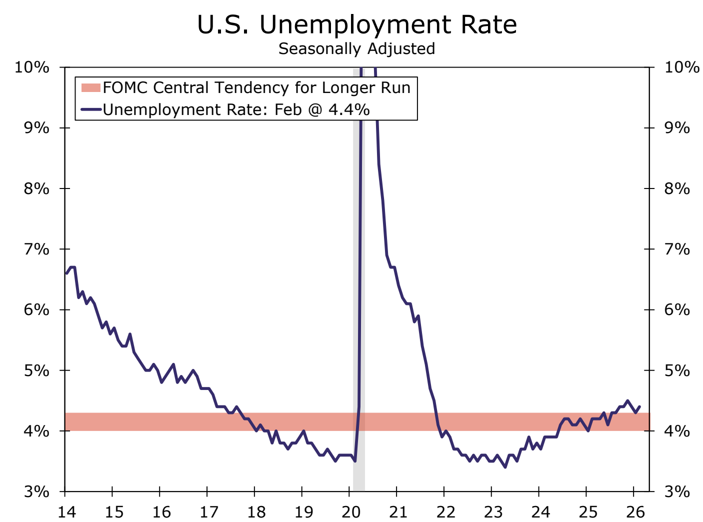
Labor Market Stumbles in February

Any notion that the jobs market was starting to stabilize was rocked by the February employment report. Nonfarm payrolls unexpectedly *fell* 92K in February. The contraction came on the heels of downward revisions to January (-4K) and December (-65K), leaving the three-month average pace of job growth at a meager 6K last month compared to 73K headed into this report.

There were some idiosyncratic factors at play. Approximately 31K nurses and other healthcare professionals were on strike in February, underpinning the 19K job decline in the healthcare & social assistance industry which has been the stalwart of overall job growth. With the strike already ended, these workers will be back on the payroll in March, leading to a commensurate lift to healthcare hiring in next month's report. Elsewhere, back-to-back harsh winter storms restrained hiring in weather-sensitive industries, such as construction and leisure & hospitality, where payrolls slipped. Federal government payrolls also continue to decline, albeit the pace of contraction is slowing.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Slower growth in the labor supply as immigration is curtailed and the population continues to age means the economy does not need to be adding as many jobs as it once did. With a lower run-rate for job growth, it is becoming less unusual for payrolls to veer into negative territory at times, particularly when there are temporary factors that reduce hiring.

Yet the upward drift in the unemployment rate resumed in February, indicating that the slowdown in job growth cannot be entirely attributed to weaker labor supply. Unemployment rose from 4.3% in January to 4.44% in February, barely missing a return to its cycle high of 4.5% reached in November. While the climb has been gradual, the upward trend indicates that the job market's health has continued to slowly erode.

Today's jobs report puts the Fed in a difficult position. The Fed speak in recent weeks had been gradually coalescing around the idea of labor market stabilization due to a couple good jobs reports, well-behaved jobless claims, and other generally encouraging labor market data. The February employment report injects a large dose of uncertainty into this narrative, and the Iran conflict further compounds the outlook as we wrote in a separate note this week. Ultimately, the Federal Reserve cannot do much to combat higher inflation from a supply-side oil price shock. That said, although the Iran conflict may not turn most participants into hawks, it does make it harder to be a dove. On balance, we expect the FOMC to remain in wait-and-see mode, and our forecast for 50 bps of rate cuts this year remains unchanged.

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