ECONOMIC UPDATE

REGIONS

April 7, 2023

March Employment Report: Slowing Job Growth Comes As No Surprise

- Nonfarm employment rose by 236,000 jobs in March; prior estimates for January/February were revised down by 17,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.1 percent (up 6.3 percent year-on-year)
- The unemployment rate fell to 3.5 percent in March (3.502 percent, unrounded); the broader U6 measure fell to 6.7 percent

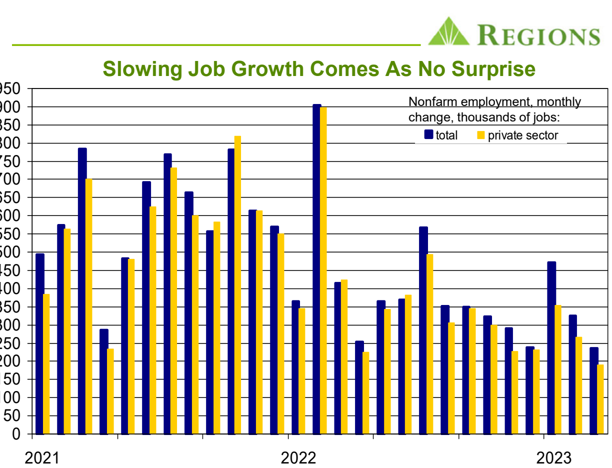
Total nonfarm employment rose by 236,000 jobs in March, a bit better than the 219,000 jobs our forecast anticipated. Our miss reflects a much larger increase in public sector payrolls, up by 47,000 jobs, than we expected while, at 189,000 jobs, the increase in private sector payrolls was smaller than we expected and marks the smallest monthly increase since February 2020. At the same time, the average length of the workweek fell by one-tenth of an hour in March, the second straight monthly decline yielding a second straight decline in aggregate private sector hours worked despite healthy increases in employment. Average hourly earnings rose by 0.3 percent, leaving them up 4.2 percent year-on-year, the smallest such increase since June 2021. Aggregate private sector wage earnings rose by just 0.1 percent for a second straight month, with these middling increases reflecting the powerful drag exerted by the drop in aggregate hours worked. Though slower, hiring was more broadly based across private sector industry groups than was the case in February. The unemployment rate fell to 3.5 percent, matching our below-consensus forecast, as the increase in household employment more than offset an increase in labor force participation. The broader U6 measure, which also accounts for underemployment ticked down to 6.7 percent from 6.8 percent in February. While the headline job growth print came in above expectations, the details of the March employment report are consistent with other indicators of cooling labor demand but do not by any means suggest the labor market is about to roll over.

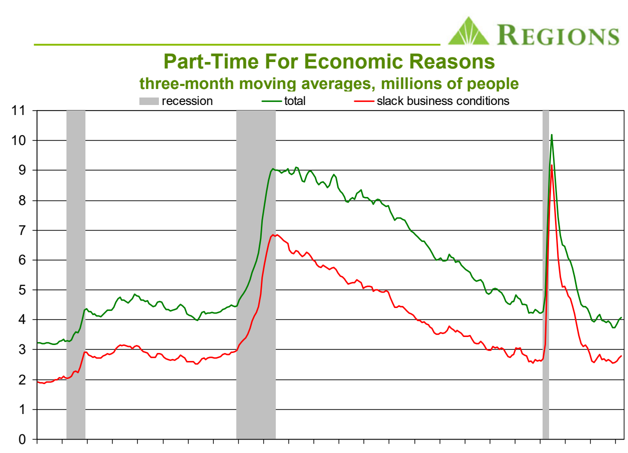
The one-month hiring diffusion index, a gauge of the breadth of hiring across private sector industry groups, rose to 60.2 percent in March from 57.4 percent in February (originally reported as 56.0 percent). We have often referred to the hiring diffusion index as our favorite beneath the headline metric in the monthly employment reports as the breadth of hiring is a useful indicator of the staying power, or lack thereof, of an expansion. That hiring remains broadly based despite diminishing in intensity suggests overall growth is slowing but does not signal the broader economy is on the verge of rolling over, which would be presaged by a meaningful and sustained decline in the one-month diffusion index. March's job gains were led by leisure and hospitality services (+72,000), education and health services (+65,000) and business services (+39,000). Payrolls amongst the goods producing industries fell by a net 7,000 jobs, with manufacturing payrolls down by 1,000 jobs and construction payrolls down by 9,000 jobs, offsetting a modest advance in payrolls in mining and natural resources. We will note, however, that not seasonally adjusted payrolls in construction rose by 0.7 percent in March but, as this is smaller than the typical March increase, the seasonally adjusted data show construction payrolls falling.

The labor force participation rate rose to 62.6 percent in March, a rate last seen in March 2020 when the pandemic first began to wreak havoc on the economy. March's increase in participation was entirely driven by increased participation amongst males. It is worth noting that while the overall participation rate remains well below pre-pandemic norms, the participation rate amongst the key 25-to-54 year-old age cohort, the "prime working age population," is, at 83.1 percent in the past two months, slightly above where it was prior to the pandemic. The shortfall in overall participation is due to rates in the 20-24 and 65-and-above age cohorts remaining below pre-pandemic norms, with participation amongst the latter cohort likely to remain so.

The decline in the broader U6 rate comes despite a modest increase in the number of those working part-time for economic reasons, including an increase in those working part-time due to slack business conditions. That said, the number of people in this category remains below pre-pandemic norms, as illustrated in our chart below. We have for some time been monitoring this metric, as a meaningful and sustained increase would be a sign of more serious deterioration in overall economic conditions.

Thus far, the labor market data are sending no such messages. While the demand for labor is clearly cooling, we're not sure why anyone would, or should, be surprised by that. Indeed, had the January and February job growth numbers not been flattered by seasonal adjustment, the downward trend in job growth would have been smoother than implied by the recent headline job growth figures and other recent labor market indicators.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com