ECONOMIC UPDATE
REGIONS
April 5, 2024

March Employment Report: For Now, Hiring Strong Enough To Keep A Lid On Jobless Rate

- Nonfarm employment rose by 303,000 jobs in March; prior estimates for January and February were revised up by a net 22,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.8 percent (up 5.9 percent year-on-year)
- The unemployment rate fell to 3.8 percent in March (3.829 percent, unrounded); the broader U6 measure was unchanged at 7.3 percent

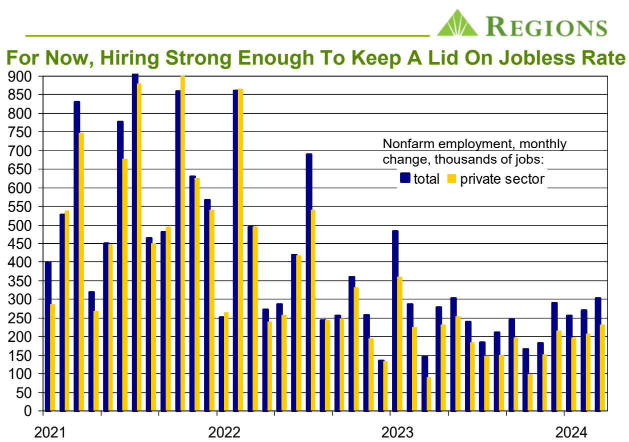
Total nonfarm employment rose by 303,000 jobs in March, once again surprising to the upside, with private sector payrolls up by 232,000 jobs and public sector payrolls up by 71,000 jobs. In a break with a long-running pattern, prior estimates of job growth over the prior two months were revised up by a net 22,000 jobs, with the modest upward revision (+4,000) to prior estimates of private sector job growth only the second time in the past fourteen months the revision has been higher rather than lower. Job growth remained highly concentrated amongst health care and social services, leisure and hospitality services, and government, which combined to add 201,300 jobs. Compounding the impact of the larger than expected increase in private sector payrolls, the average length of the private sector workweek rose by one-tenth of an hour, fueling an above-trend 0.8 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.9 percent year-on-year. The unemployment rate fell to 3.8 percent, matching the consensus forecast but one-tenth of a point above our forecast; despite a jump in the labor force participation rate, an even larger increase in household employment pushed the jobless rate down. The broader U6 rate, which accounts for both unemployment and underemployment, held at 7.3 percent in March. As has become a regular occurrence, the initial collection rate for the BLS's establishment survey was once again low; at 65.0 percent, the March collection rate is far below pre-pandemic norms and even below a notably low post-pandemic average. At the same time, there is also evidence that the March headline job growth number was flattered by seasonal adjustment, contrary to our expectation that seasonal adjustment would have weighed on the March headline job growth number. All in all, however, the labor market remains quite healthy, with solid growth in labor earnings continuing to underpin personal income growth.

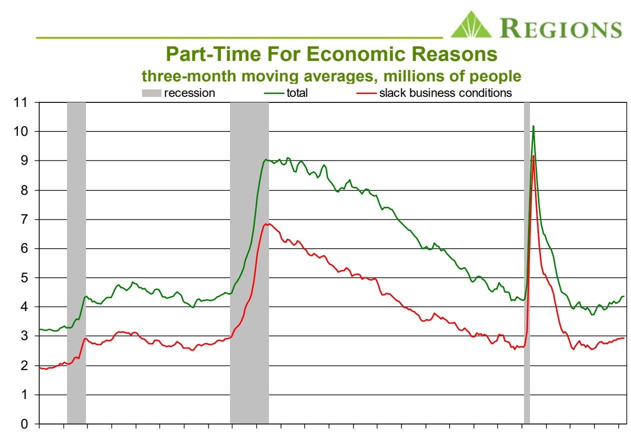
To our point about seasonal adjustment, the not seasonally adjusted data show total nonfarm payrolls rose by 0.42 percent, easily below the typical March increase, as was the case with the March increases in unadjusted payrolls in construction and leisure and hospitality services. This raises some questions as to the reported increases in the seasonally adjusted data, with construction payrolls reported to have increased by 39,000 jobs and leisure and hospitality services payrolls reported to have risen by 49,000 jobs. The change in unadjusted retail trade payrolls was right in line with the typical March change, leaving little to question in the increase of 17,600 jobs shown in the seasonally adjusted data.

To our point about March job growth being concentrated amongst three industry groups, keep in mind that these three groups – again, health care and social services, leisure and hospitality services, and government – were notorious laggards in regaining the jobs lost at the onset of the pandemic. As such, it makes sense that they are now driving job growth as hiring amongst what had been the leading job gaining industry groups has slowed or, in the cases of technology and warehousing/delivery services, reverses to some extent. This does of course raise the question of what happens to overall job growth when hiring amongst the three current leaders slows, which is one reason to expect a meaningful slowdown in the pace of job growth at some point in the months ahead. The one-month hiring diffusion index, a measure of the breadth of hiring amongst private sector industry groups, ticked up to 59.4 percent in March from 58.6 percent in February but nonetheless remains below both pre-pandemic and post-pandemic averages.

A month ago, we dismissed the increase in the unemployment rate as being meaningless noise, as it was more than entirely accounted for by employment amongst 16-to-24 year olds reported to have declined by 465,000 persons. We expected that decline to be reversed in the March data, it was simply a matter of degree. The March data show employment amongst this age cohort rising by 349,000 persons but, as this was a smaller gain than we expected, the jobless rate fell by less than our forecast anticipated. The March data also show employment amongst the prime working age cohort (25-to-54 years old) fell, which reflects a smaller than normal March increase in the unadjusted data.

We do think the trend rate of job growth is slowing, and will slow further once hiring amongst the current "big three" begins to wane, at which time the slowdown in trend job growth will become much more pronounced. That will lead to at least a modest increase in the jobless rate.





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