ECONOMIC UPDATE

REGIONS

April 4, 2025

March Employment Report: Don't Be Too Quick To Dismiss A Solid Report

- Nonfarm employment rose by 228,000 jobs in March; prior estimates for January and February were revised down by a net 48,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.4 percent (up 4.4 percent year-on-year)
- The unemployment rate rose to 4.2 percent in March (4.152 percent, unrounded); the broader U6 measure fell to 7.9 percent

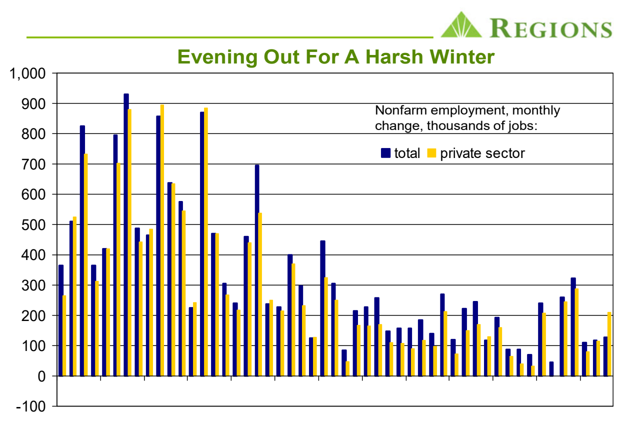
Total nonfarm employment rose by 228,000 jobs in March, better than our above-consensus forecast of 168,000 jobs, with private sector payrolls up by 209,000 jobs and public sector payrolls up by 19,000 jobs. Prior estimates of job growth in January and February were revised down by a net 48,000 jobs for the two-month period, with the hit spread evenly across estimates of private and public sector job growth. The average length of the workweek came in at 34.2 hours, matching the upwardly revised estimate for February, while average hourly earnings were up by 0.3 percent, matching what we and the consensus expected. The net result of March job growth, hours worked, and hourly earnings is a 0.4 percent increase in aggregate private sector wage and salary earnings, yielding a year-on-year increase of 4.4 percent. The unemployment rate did edge higher, but only just, with the unrounded rate of 4.152 percent printing at 4.2 percent which, either way, is higher than our forecast on a larger gain in the labor force than we anticipated. There was only modest relief on the broader U6 measure, which also accounts for underemployment, which slipped from 8.0 percent in February to 7.9 percent in March. Though the March employment report was much better than almost all of us expected, many were quick to dismiss it out of hand given concerns that a trade war will sink the U.S. and global economies. While appreciating those concerns, we'd caution against giving the report such short shrift. After all, as we routinely point out, starting points matter, and the March employment is a reminder, a useful one, that, whatever may lie ahead, the starting point is a labor market that while by no means as hot as had been the case, is nonetheless still solid. That should, at least in our estimation, count for something.

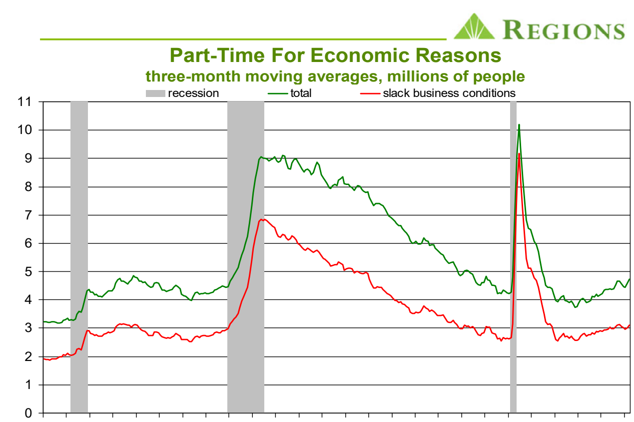
Hiring was somewhat less broadly based in March, with the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, falling to 54.2 percent from a downwardly revised 56.0 percent in February. Within the manufacturing sector, however, the one-month hiring diffusion index tumbled from 54.2 percent in February to 45.1 percent in March, with total manufacturing payrolls rising by just 1,000 jobs. Our sense that the brief burst of stepped-up activity in the factory sector driven by attempts to front-run higher tariffs had pretty much run its course was seemingly supported by the ISM Manufacturing Index slipping back into contractionary territory in March, and the March employment report also seems to support our view.

While construction payrolls rose by 13,000 jobs in March, this is a smaller increase than would have been implied by typical seasonal patterns and what should have been payback for the impacts of atypically harsh winter weather in January and February. In this week's *Economic Preview*, however, we noted that the shift in immigration policy may be impacting construction payrolls. We pointed to the not seasonally adjusted data, which showed a larger January decline and a smaller February advance than typical for those months, and the March data also show a smaller increase than is typical for the month. As we are now in what is typically a seasonally strong time of the year for construction employment, any shortfalls in hiring in the not seasonally adjusted data will be magnified in the seasonally adjusted data.

Though we were surprised by the magnitude of the increase in the size of the labor force in March, that increase was basically accounted for by females in the 16-to-24 years old age cohort while participation amongst the "prime working age" cohort, i.e., those between 25-and-54 years old, declined. In other words, the usual monthly zaniness in the age/gender splits we've long pointed to in the household survey data are still alive and well, as it were. But, one thing the data are picking up on is slowing growth in foreign born labor, which we continue to think will act as an increasingly large drag on labor supply growth as 2025 progresses.

Recall that a key factor in the U6 rate jumping from 7.5 percent in January to 8.0 percent in February was an increase in the number of those working part-time for economic reasons, and within that cohort an increase in the number doing so due to slack business conditions. The number in each of these groups fell in March, but the trends nonetheless remain upward, which is reflecting cooling demand in amid a slowing pace of economic activity. Another manifestation of that is a rising duration of unemployment, which helps account for the upward drift in continuing claims for unemployment insurance benefits even as initial claims remain notably low. We continue to see private sector layoffs as the most important labor market indicator, even more so in the months ahead.





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