ECONOMIC UPDATE
REGIONS
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March Employment Report: Yes, The Trend Is Still Your True Friend

- Nonfarm employment rose by 103,000 jobs in March; prior estimates for January/February were revised down by a net 50,000 jobs
- Average hourly earnings rose by 0.3 percent; aggregate private sector earnings rose by 0.4 percent in March (up 5.2 percent year-on-year)
- The unemployment rate was unchanged at 4.1 percent in March (4.071 percent, unrounded); the broader U6 measure fell to 8.0 percent

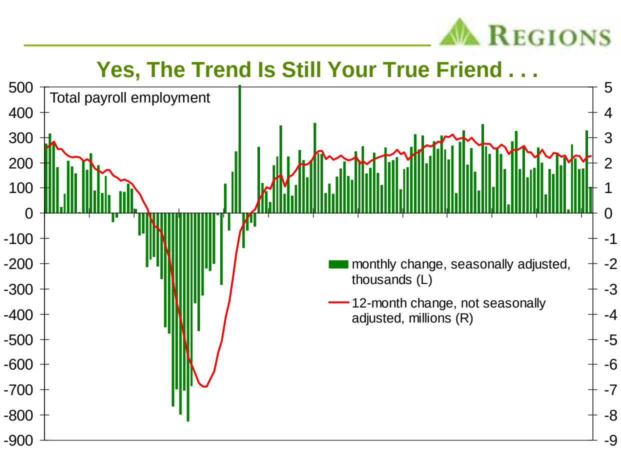
The headline above our note on the February employment report was "The Trend, Not The Headline, Is Your True Friend." As you can see above, we've stuck with that same theme, i.e., the trend is your true friend. That isn't because we've run out of new things to say, but instead because, well, because the trend really is your friend. Unlike the fickle headline numbers that can lead you, but only if you let them, to swing from euphoria to despair from one month to the next without really telling you anything meaningful, the trend is stable and reliable in that it tells you what is really going on. With that, we'll get to the numbers – total nonfarm employment rose by 103,000 jobs in March, below our below-consensus forecast of a 152,000 job increase. Private sector payrolls were up by 102,000 jobs and public sector payrolls were up by 1,000 jobs. Prior estimates of job growth for January/February were revised down by a net 50,000 jobs for the two-month period, with most of this coming from estimates of public sector job growth. The unemployment rate held at 4.1 percent for a sixth consecutive month. Average hourly earnings were up 0.3 percent in March, leaving them up 2.7 percent year-on-year.

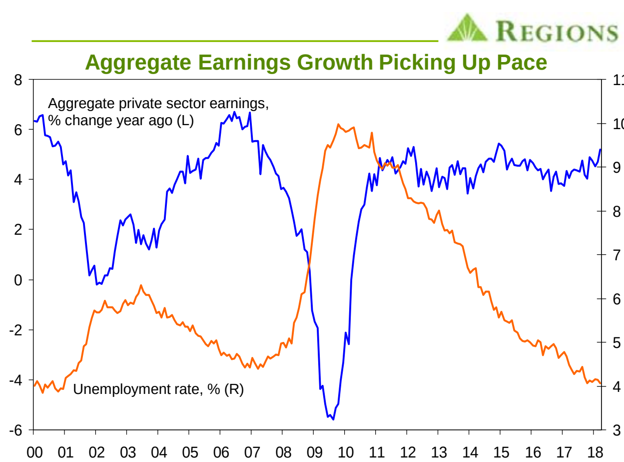
In our weekly *Economic Preview*, we noted the high degree of noise in the Q1 employment data and suggested that rather than get caught up in the month-to-month swings, you instead focus on average monthly job growth for Q1. We suggested that doing so would lead you to conclude that, the high degree of noise notwithstanding, the labor market remained rock solid. Nothing in the March employment report changes our view. Monthly job growth for Q1 as a whole was 202,000 jobs, which is not only impressive for this late into an economic expansion but is also more than sufficient to keep downward pressure on the unemployment rate, though over recent months more favorable participation trends have held the jobless rate steady. Job growth remains notably broad based, with the one-month hiring diffusion index coming in at 62.6 percent in March.

There two factors behind our below-consensus forecast for March job growth. One was atypically mild winter weather in February (which came much to the chagrin of the "it's always cold in winter" chorus), which led to outsized job gains in weather sensitive industries, such as construction. This contributed to the largest percentage increase in not seasonally adjusted employment for the month of February since 1941, and there was going to be payback for that in the March data, there was just no way around that. Second, snow storms during the March survey week held down reported employment (recall that in the payroll survey one must be physically present at work during the survey period), but the larger effect came on hours worked in March.

After an increase of 65,000 jobs in February, construction payrolls are reported to have fallen by 15,000 jobs in March (seasonally adjusted changes). Neither, however, is representative of reality, which is that construction payrolls have been growing at a consistent, albeit slow, pace over the past several quarters.. Retail trade payrolls dipped by 4,000 jobs in March, but this follows a reported increase of 47,300 jobs in February, and again neither is representative of reality. There is likely some seasonal adjustment noise in the March data, and will be in the April data, on retail payrolls due to this year's early Easter. Manufacturing payrolls rose by 22,000 jobs in March, following up on a solid 31,000 increase in February, while business services payrolls were up by 33,000 jobs.

The 0.3 percent increase in average hourly earnings leaves them up 2.7 percent year-on-year. As we routinely note, however, the more relevant measure of labor costs is aggregate wage and salary earnings, or, the product of the number of people working, the number of hours they work, and what they earn for each hour worked. Though comfortably ahead of inflation, aggregate earnings growth had been somewhat range-bound over recent years, but over the past several months the trend rate of growth has been moving higher. There is still considerable latitude for firms to increase hours worked; the average workweek remains well shy of where it would be were firms facing more pressing labor supply constraints. We expect to see hours worked increase over coming months. For now, though, the labor market remains on firm footing, as the trend rate of job growth will tell anyone willing to listen.





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