ECONOMIC UPDATE

REGIONS

April 5, 2013

March Employment Report: Few Silver Linings In March Unemployment Report

- Nonfarm employment rose by 88,000 jobs in March; estimates for January and February were revised higher by a net 61,000 jobs
- Average hourly earnings were flat in March, with aggregate earnings up by 0.4 percent (up 3.91 percent year-over-year).
- The unemployment rate fell to 7.6 percent (7.574 percent unrounded); the broader U6 measure fell to 13.9 percent.

If nothing else, the March employment report is a reminder that March Madness doesn't have a monopoly on surprises during the month. Total nonfarm employment rose by just 88,000 jobs, with private sector payrolls up by 95,000 jobs and government payrolls falling by 7,000 jobs. Previous estimates for January and February were revised up by a net 61,000 jobs, with both private and public sector job counts both revised higher. The unemployment rate fell to 7.6 percent in March, but this is due to the 496,000 person decline in the labor force, so even the lower unemployment rate doesn't count as a silver lining.

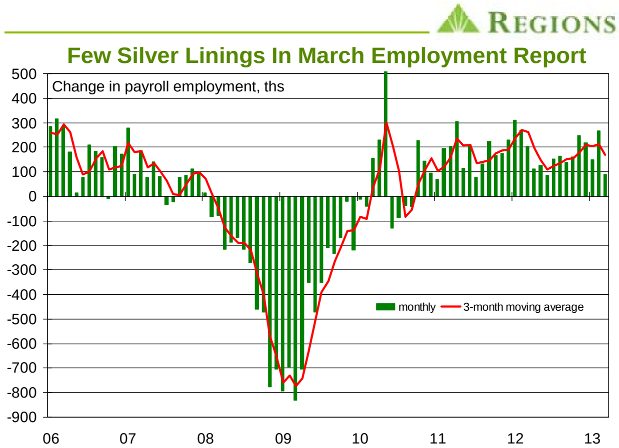
Actually, the March employment report is not totally bereft of good news. The length of the average workweek rose from 35.5 hours in February to 35.6 hours in March which, as good news goes, may not seem like much. But, recall that each one-tenth change in the length of the average workweek is equivalent to a better than 300,000 job change in employment. This has a powerful impact on aggregate earnings, so despite a disappointing gain in private sector payrolls and flat average hourly earnings, aggregate private sector earnings grew by 0.4 percent in March, which translates into an over-the-year gain of 3.91 percent.

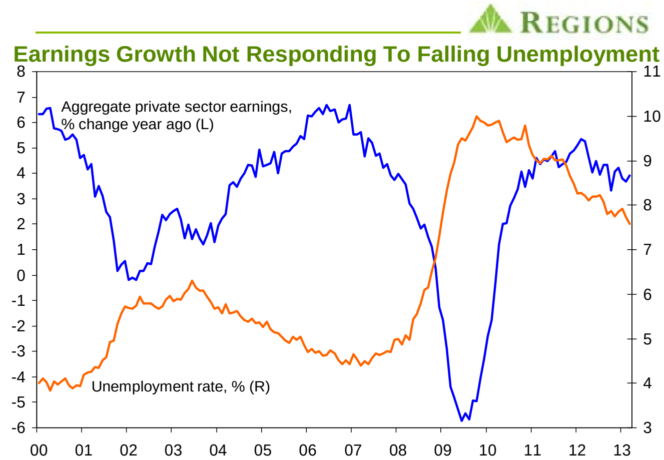
Still, as seen in the second chart below, growth in aggregate earnings is not fully responding to the lower unemployment rate. This is a function of the unemployment rate falling for the wrong reason, i.e., a declining participation rate. That average hourly earnings growth remains tepid is a sign that the falling unemployment rate is somewhat misleading. While employment and hours worked have moved higher, it is this third component of aggregate earnings that has yet to respond which is indicative of the degree of labor market slack that remains.

The decline in the labor force in March was spread across age groups and genders, with only the 35-to-44 year-old age cohort posting a higher participation rate in March. As we frequently note, the data from the household survey tend to be highly volatile from month to month, so, frankly, it's hard to know what to make of the sharp declines in both the labor force and household employment. We will note, for whatever it's worth, that there was a significant increase in the number of previously employed adults who left the labor force while the number of unemployed who left the labor force fell during March.

As to the payroll survey data, it could be that faced, with uncertainty over the impacts of the sequestration spending cuts, many firms opted to alter hours worked rather than actual job counts. The private sector diffusion index, which measures the breadth of hiring across industry groups, came in at 54.3 percent in March, down from February but still above 50 percent, which would not be the case were there a more fundamental weakening of labor market conditions during the month. While manufacturing payrolls fell slightly, overtime hours increased slightly. Retail trade employment declined by 24,000 jobs, which is more than accounted for by job losses at building materials stores and apparel stores. No other industry groups really stand out in terms of large swings, either up or down, in job counts in March, which again takes us back to changes in hours worked as taking on added importance during the month. Note that for Q1 as a whole, aggregate private sector hours worked rose at an annualized rate of 3.3 percent, consistent with our expectation of real GDP growth of over 3 percent.

Coming months will reveal how the sequestration spending cuts will impact the labor market, but our sense is that furloughs will be a far larger component than job cuts. This will turn up in the monthly data in the form of reduced hours and earnings more so than job losses, but the extent of these effects remains to be seen. It also remains to be seen whether the March employment rate is the start of yet another seasonal swoon such as those seen in recent years. We suspect not but one thing that is certain is that the March employment report will, at least for now, temper thoughts of the Fed taking their collective foot off of the monetary policy accelerator over coming months.





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