

ECONOMIC UPDATE



REGIONS

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April Employment Report: Labor Market Still Standing . . .

- Nonfarm employment rose by 165,000 jobs in April; estimates for February/March were revised higher by a net 114,000 jobs
- Average hourly earnings rose by 0.2 percent in April, with aggregate earnings down by 0.2 percent (up 3.60 percent year-over-year).
- The unemployment rate fell to 7.5 percent (7.510 percent unrounded); the broader U6 measure rose to 13.9 percent.

That strange sound you heard at 8:30 EST this morning was a huge sigh of relief coming from the financial markets upon the release of the April employment report. Total nonfarm employment rose by 165,000 jobs in April, slightly below our expectations (180,000) but way above the consensus estimate that had been driven sharply lower over recent days. Moreover, previous estimates for February and March were revised sharply higher, with a net upward revision of 114,000 jobs for the two-month period. The unemployment rate fell to 7.5 percent in April and, unlike March's decline, this time the jobless rate fell for the right reason, i.e., household employment rising faster than the labor force.

Still, while the world as we know it did not end and the sky did not fall, the April employment report is not without its blemishes. Thanks to the mix of jobs added in April, average weekly hours fell to 34.4 hours from 34.6 hours. This is a function of a decline in jobs in goods producing industries – factory payrolls were unchanged while job counts in mining and construction fell. It is worth noting that while overall job counts in construction were lower, this is entirely due to job losses in nonresidential construction, with jobs added in residential construction and residential specialty contractors.

All of April's job gains came in the service producing industries, and jobs in many of these industries carry shorter work weeks. For instance, 103,000 of the net gain of 185,000 private sector service jobs came in temporary help, retail trade, and leisure & hospitality services, jobs that come with lower hours and lower earnings. As such, the mix job gains in March not only drove the length of the workweek down, but it also drive aggregate private sector earnings lower as well, with a 0.2 percent decline that translates into an over-the-year gain of just 3.6 percent.

In addition, one of our primary measures of the degree of labor slack is the number of people working part-time for economic reasons, and this metric rose sharply in April to 7.916 million. Note that the Affordable Care Act takes effect in 2014 but the determination of full-time and

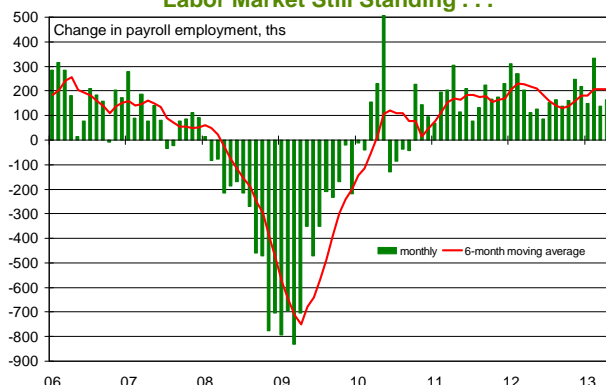
part-time workers tied to the ACA is based on 2013 employment patterns. As such, we may see the number of those working part-time for economic reasons remain elevated for some time to come as small businesses adapt to/plan for implementation of the ACA. There was a decline in the number of long-term unemployed in April, and while this was to some extent a function of people exiting the labor force, it should be noted that April saw an increase in employment amongst those who had been previously unemployed, while the number of unemployed who dropped out of the labor force declined. At the same time, over 3.9 million people went from not being in the labor force in March to employed in April, the largest such swing since January 2008.

Total government employment fell by 11,000 jobs in April, with 8,000 job losses in the federal government sector, 1,000 state-level job losses, and 2,000 job losses in the local government sector. What we do not yet know is the extent to which the sequestration spending cuts impacted hours worked amongst federal government workers. The BLS does not provide data on hours worked in the government sector so, as those of us who sat on delayed flights can attest to, while there were some government workers placed on furlough, we cannot quantify the effects just yet. The April data on personal income will help on this front. In terms of the impact on the private sector, employment in business and professional services – which includes many firms that contract with the federal government – rose by 73,000 in April (this includes the 30,800 jobs in temporary help services), but both hours and earnings within this industry group fell during the month. So, while there may not have been widespread layoffs tied to the sequestration spending cuts, the data on hours and earnings suggest there were some private furloughs.

All in all, despite what for many were low expectations, the labor market is still standing. Still, there remains a high degree of labor market slack, and the full impact of the sequestration cuts has yet to be felt. We could see a slower pace of job gains in the near term before the pace of hiring picks up towards the end of 2013.



Labor Market Still Standing . . .



Still A High Degree Of Labor Market Slack

