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## April Employment Report: Soft Headline Print, Underlying Trend Remains In Place

- Nonfarm employment rose by 160,000 jobs in April; prior estimates for February/March were revised down by a net 19,000 jobs.
- Average hourly earnings rose by 0.31 percent, with aggregate private sector earnings up 0.75 percent (up 4.71 percent year-over-year).
- The unemployment rate held at 5.0 percent (4.984 percent unrounded); the broader U6 measure fell to 9.7 percent.

In the words, or, word, of noted economist Aaron Rodgers, relax. Yes, total payroll employment increased by "only" 161,000 jobs in April, below expectations of right around 200,000. But, no, the April data do not mark the start of an ominous trend, and contrary to some of the instant "analysis" on financial talk TV, neither do the April data show firms pulling back the reins on hiring and spending due to uncertainty over the outcome of the upcoming Presidential election. In short, the April employment report does not alter our view of the labor market and, more significantly, is highly unlikely to alter the FOMC's view.

Private sector payrolls rose by 171,000 jobs in April with government sector payrolls falling by 11,000 jobs, 7,900 of which came from the U.S. Postal Service which, while perhaps a Tea Party dream, is not so supportive of the payroll employment number. Beyond that, there are some seasonal adjustment issues at play, most notably in construction and retail trade, and what we see in the April data is some payback for stronger than normal hiring in March and prior months. Take construction – as has been apparent in the data on residential construction, and as we've noted in our write ups of those reports, unseasonably warm weather pulled some construction activity forward into the winter months, meaning hiring in construction was stronger earlier in the year than is typically the case. As such, when April rolled around there was less hiring than would have otherwise been the case. As a result, what was a 209,000 job increase in not seasonally adjusted construction payrolls in April got knocked down to a 1,000 job gain in the seasonally adjusted data. We also see some evidence of some seasonal adjustment issues in retail trade, likely stemming from this year's early Easter.

Any such seasonal adjustment noise clearly impacts the month-to-month changes but, as we routinely note, does not alter the underlying trend. As such, a glimpse at the not seasonally adjusted data shows us that over the past 12 months the economy has added 2.658 million jobs, which is right in line with what has been the underlying trend. This of

course does not mean there are no concerns – mining payrolls fell by another 7,100 jobs in April, and the diminished breadth of hiring in the manufacturing sector reflects the ongoing impact of a weak global growth environment and the inventory overhang. That said, hiring in areas like business services and health services showed no signs of slowing in April. These sectors are far less prone to seasonal adjustment issues, and in the case of business services, if conditions were truly deteriorating or firms quivering in fear about the election, you'd see it here before most other sectors.

It is also worth noting the length of the average workweek rose by one-tenth of an hour in April, which is equivalent to over 300,000 private sector jobs in terms of the economy's productive capacity. This also has a profound impact on growth in aggregate private sector earnings. Along with a 0.3 percent gain in average hourly earnings, the longer workweek helped fuel a 0.75 percent increase in private sector earnings, for an over-the-year gain of 4.71 percent, which is a solid number and which easily outpaces inflation, as has been the case for some time now.

As to the data from the household survey, both the labor force and the level of household employment fell sharply in April after several months of sizeable gains. Labor force participation and employment fell across all age cohorts with the exception of those in the 55-to-64 year-old cohort. Given the inherent volatility in the household survey data we simply cannot draw any meaningful conclusions from the April data, though the break by age cohorts looks unusual. It is also worth noting the decline in the number of those working part-time for economic reasons, which pushed the measure of underutilization in the labor market lower, though at 15.6 million it remains elevated.

As always, one is free to interpret the April employment report as they see fit, whether that means reacting to the soft headline print or looking at the details and concluding nothing much has changed. We've done the latter, and suspect the FOMC will do the same.

