ECONOMIC UPDATE

REGIONS

April 7, 2017

March Employment Report: The Weather Giveth, The Weather Taketh Away . . .

- Nonfarm employment rose by 98,000 jobs in March; prior estimates for January/February were revised down by a net 38,000 jobs.
- Average hourly earnings rose by 0.2 percent; aggregate private sector earnings rose by 0.3 percent (up 4.1 percent year-on-year).
- The unemployment rate fell to 4.5 percent in March (4.495 percent, unrounded); the broader U6 measure fell to 8.8 percent.

Well, if nothing else, we now know Mother Nature does indeed have a sense of humor. Either that or an affinity for toying with economists. Total nonfarm employment rose by just 98,000 jobs in March, with private sector payrolls up by 89,000 jobs and public sector payrolls up by 9,000 jobs. Prior estimates for job growth in January and February were revised down by a net 38,000 jobs for the two-month period. The unemployment rate fell to 4.5 percent and the broader U6 measure fell to 8.9 percent, the lowest since December 2007. Average hourly earnings were up 0.2 percent, leaving them up 2.7 percent year-on-year.

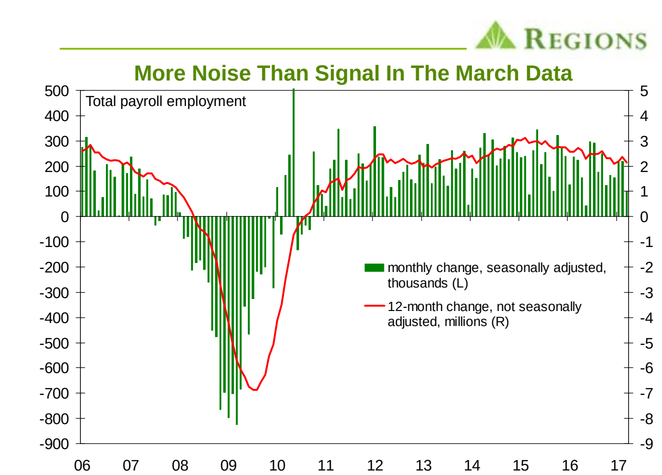
As we routinely note, any one report for any one month tells you very little, and the last three employment reports are a perfect illustration of our point. We noted that the January and February reports were impacted by seasonal adjustment noise stemming from an atypically mild winter. This was particularly notable in residential construction activity, which was pulled forward earlier in the year than would normally be the case. This was reflected in the seasonally adjusted data showing sizeable job gains in construction, and we noted the March data would bring payback. As not seasonally adjusted construction payrolls held up better in January and February than is typically the case, the boost in March was smaller than normal this year, which is reflected in a gain of just 6,000 construction jobs on a seasonally adjusted basis.

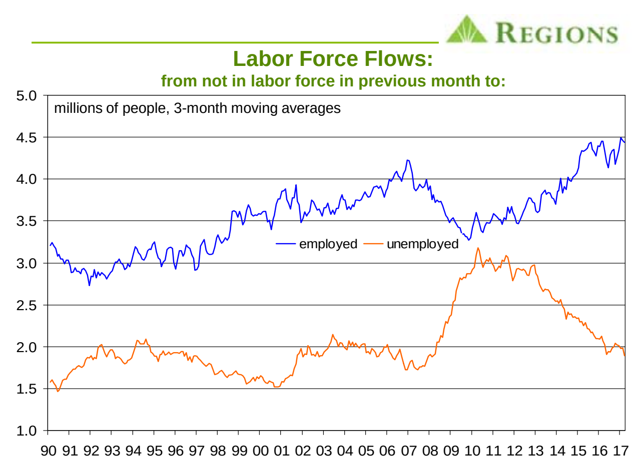
We're not quite done with the weather just yet. As we noted in our weekly *Economic Preview*, the BLS's survey week coincided with, you guessed it, a severe winter storm that mainly impacted the Northeast. We noted this would likely have more of an impact on hours worked than on actual job counts, and this appears to have been the case. While there is no direct evidence from the establishment survey, the household survey shows 164,000 people did not work due to weather during the survey week, which is smaller than normal for the month of March. At the same time, however, 3.106 million people worked fewer hours than normal during the survey week due to the weather, which is an unusually large number and one that is larger than seen in January and February combined.

One thing that is less clear is the cause of the sharp decline in job growth amongst private sector service providing industries, which added just 61,000 jobs in March. One culprit is the 30,000 job decline in retail trade payrolls, with job counts amongst general merchandise stores falling by 35,000 jobs. This is odd, even given the ongoing troubles faced by brick and mortar retailers. The March data could reflect seasonal adjustment noise tied to this year's late Easter, as not seasonally adjusted retail payrolls were flat. If this is the case there will be payback in the April data. Hiring in leisure & hospitality services, which has for some time been a key source of overall job growth, also slowed notably in March.

Clearly, job growth is neither as strong as implied by the January and February reports nor as weak as implied by the March report. As is the case with most data series, the best gauge of the underlying trends can be seen in the not seasonally adjusted data, which show that over the past 12 months the economy has added 2.135 million jobs, slower than the run rate seen earlier in the expansion but still quite healthy for this point in the cycle. That the pace of job growth has slowed does not mean firms are running out of workers to hire. As seen in our second chart, more than six million people per month are transitioning into the labor force from being out of the labor force in the prior month. Despite the drop in the U6 rate, there is still an ample degree of labor market slack to be absorbed. Another source of slack is what remains a notably short average work week, even when accounting for March's weather related distortions. Firms have ample capacity to utilize current workers more intensively before looking to take on additional workers. Our view is this labor market slack will remain a drag on wage growth over much of this year, and growth in aggregate labor earnings will remain subdued until the length of the workweek approaches more normal levels.

The March employment report does nothing to change our view of the labor market, which was exactly our reaction to the January and February reports. The underlying trend rate of job growth remains healthy, but there remains considerable slack to be absorbed.





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