ECONOMIC UPDATE

REGIONS

May 4, 2018

April Employment Report: Trend Rate Of Job Growth Still Solid

- Nonfarm employment rose by 164,000 jobs in April; prior estimates for February/March were revised up by a net 30,000 jobs
- Average hourly earnings rose by 0.1 percent; aggregate private sector earnings rose by 0.3 percent in April (up 4.8 percent year-on-year)
- The unemployment rate fell to 3.9 percent in April (3.929 percent, unrounded); the broader U6 measure fell to 7.8 percent

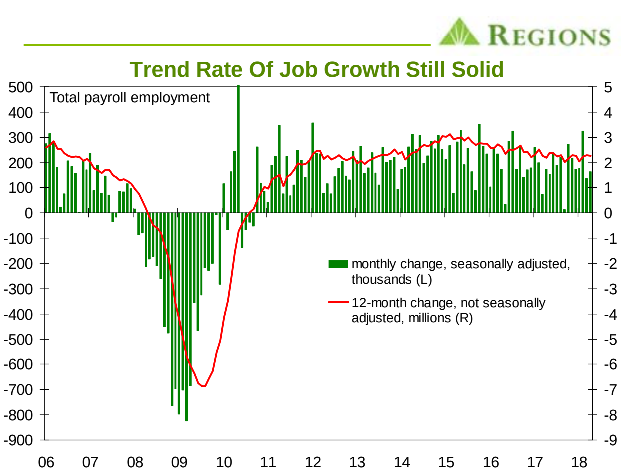
Total nonfarm employment rose by 164,000 jobs in April, below our forecast of 202,000 jobs, with private sector payrolls up by 168,000 jobs and public sector payrolls falling by 4,000 jobs. Prior estimates of job growth in February and March were revised up by a net 30,000 jobs for the two-month period, with private sector job growth accounting for all of the upward revision. While the unemployment rate fell to 3.9 percent, the lowest since December 2000, there is little cause for celebration on this front as the jobless rate was pulled down by a 236,000 person decline in the labor force. Average hourly earnings rose by just 0.1 percent, leaving them up 2.6 percent year-on-year. We'd caution against putting too much stock in the monthly change, however, as an early survey week biased the monthly increase lower. Though headline job growth came in shy of our expectations in April, the underlying trend rate of job growth remains solid, with average monthly gains of 189,000 jobs over the past 12 months. At the same time, the prevailing trends in wage growth and hours worked suggest more slack remains in the labor market than is implied by a sub-four percent unemployment rate.

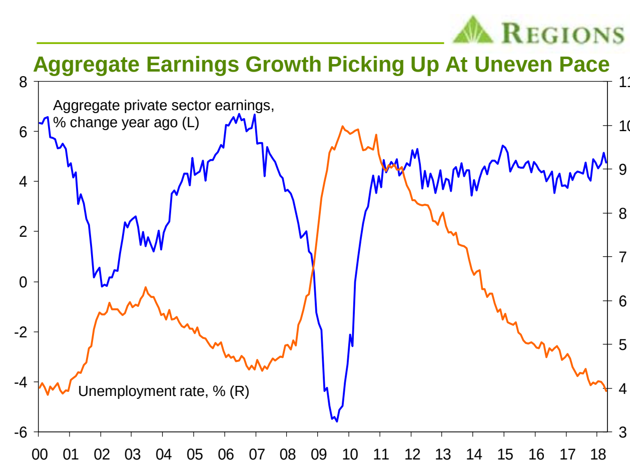
The reported decline in the labor force is meaningful only to those who seem not to have noticed how volatile the household survey data are from one month to the next and thus are intent on spinning a narrative around each monthly change. In April, a decline in participation amongst the 16-to-24 year-old cohort more than accounts for the entire decline in the labor force. As a simple glance at the data shows, large monthly swings across the various age cohorts are the rule, not the exception, and the change in any given month says nothing meaningful, at least not to us. What we think to be of far more relevance are the data on labor force flows. Over the past several months we have noted the significant number of people transitioning from not in the labor force in one month to employed in the next month, and April saw a continuation of this. In any given month the majority of those who flow into the labor force are employed upon entry into the labor force. Over the past 14 months, however, that share has been above 70 percent, which is well above historical norms. This steady inflow into the labor force cannot continue indefinitely, but we think it has further room to run, even if this is at odds with the popular "firms are running out of people to hire" narrative.

As for the data from the establishment survey, April job growth was led by business services (54,000), education & health services (31,000) and manufacturing (24,000). Hiring was the weakest in transportation, retail trade, and finance. One data point to take note of is the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. In April, this index slipped to 57.6 percent, down considerably from the average over the past several months. Again, one data point yields no meaningful conclusions, but this is one metric worth watching (we've referred to the hiring diffusion index as our favorite beneath the headline indicator in the monthly employment report) given how notably broad based job growth has been over the current expansion.

The length of the average workweek held at 34.5 hours in April, falling short of the 34.6 hours our forecast anticipated. We've often referred to a still-short workweek as an underappreciated form of labor market slack, with average weekly hours well below what we would be seeing were we truly at full employment. In other words, if firms really were pressed for labor input, they have ample capacity to increase the hours worked by their current workforces. Though seemingly small, each one-tenth of an hour change in the workweek is equivalent to over 300,000 private sector jobs in terms of the economy's productive capacity. This in turn has a powerful impact on growth in aggregate wage and salary earnings, which is of far more relevance than average hourly earnings in terms of how firms see labor costs and as a driver of growth in personal income. While easily outpacing inflation, growth in aggregate earnings remains shy of the better than 6.0 percent rate consistent with past episodes of the labor market operating at or beyond full employment.

In short, we think the headline jobless rate overstates how tight the labor market is. We look for the trend rate of job growth to remain steady in the months ahead, bringing gradually accelerating wage growth





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