ECONOMIC UPDATE

REGIONS

May 3, 2019

April Employment Report: Labor Market Keeps On Rolling . . .

- Nonfarm employment rose by 263,000 jobs in April; prior estimates for February/March were revised up by a net 16,000 jobs
- Average hourly earnings rose by 0.2 percent in April; aggregate private sector earnings rose by 0.1 percent (up 5.0 percent year-on-year)
- The unemployment rate fell to 3.6 percent in April (3.585 percent, unrounded); the broader U6 measure was unchanged at 7.3 percent

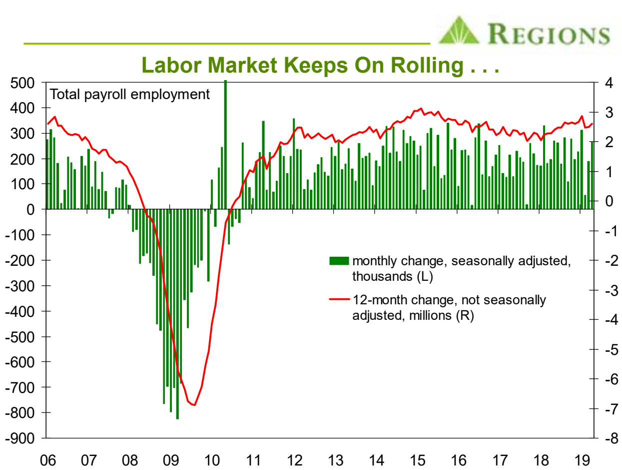
Total nonfarm employment rose by 263,000 jobs in April, topping our above-consensus forecast of 226,000 jobs, with private sector payrolls up by 236,000 jobs (our forecast was 222,000) and public sector payrolls up by 27,000 jobs. Prior estimates of job growth for February and March were revised up by a net 16,000 jobs for the two-month period. We'd advise against getting too attached to that estimate of April job growth in the government sector, as it was bolstered by an oddly large increase in hiring in the education segment, but the larger, not to mention more believable, story is the continued strength of private sector job growth. Over the past 12 months, private sector payrolls have risen by just under 2.5 million jobs and the rate of job growth has actually picked up, which is extraordinary this deep into an expansion.

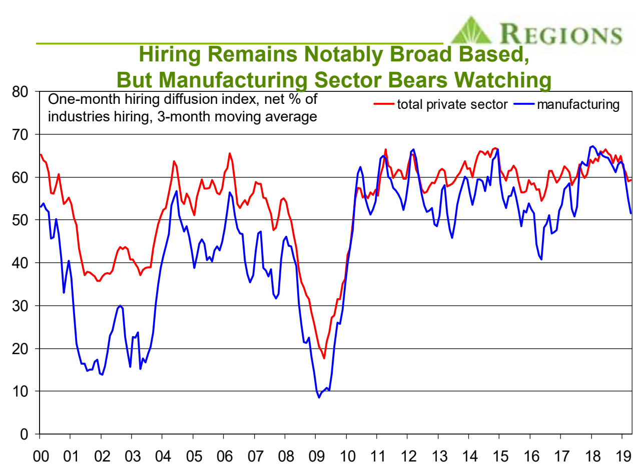
There are, however, some notable soft spots in the April employment report, one of which is the one-tenth of an hour decline in the average length of the workweek. Another soft spot is the 490,000 person decline in the labor force; while we don't put too much stock in any monthly change in the labor force or the level of household employment given the inherent volatility in these series, April marks the fourth consecutive monthly decline in the labor force, and is the primary factor behind the unexpected decline in the unemployment rate. While some are pointing to the 0.2 percent increase in average hourly earnings as another soft spot in the April data, we do not agree with this assessment – the April survey period ended before the 15th of the month, and historically in months in which this has been the case measured hourly earnings growth tends to be biased lower. In other words, this is just noise in the data, and of more relevance is that year-on-year growth has topped 3.0 percent for seven consecutive months, the longest such streak in the post-recession years.

One of the hallmarks of the current expansion is that job growth has been notably broad based, and this remained the case in April. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, ticked up to 60.1 percent in April, the highest since December. We've often called this series our favorite beneath the headlines labor market indicators, and have noted that a pronounced and sustained narrowing of the breadth of job growth would be a clear sign that the expansion is on its last legs. While there are no such signals in the broader data, nor do we expect to see them any time soon, it should be noted that the hiring diffusion index for the manufacturing sector has indeed fallen sharply over recent months. At 48.0 percent in April, the diffusion index for the manufacturing sector is at a two-year low, and this is consistent with the slower pace of job growth in the factory sector over recent months – after manufacturing payrolls were flat in March, April saw a gain of just 4,000 jobs. The payroll employment data and the ISM Manufacturing Index are consistent with our premise that a slower global growth environment and an inventory overhang are acting as material drags on the manufacturing sector. We expect this drag to ultimately fade, but that will take some time and in the interim much of the data on the factory sector will be somewhat soft. What will be more lasting, however, will be the decelerating pace of motor vehicle sales, which is already being seen in a run of job losses amongst motor vehicle producers.

April job growth was led by business services (76,000), education and health services (62,000), leisure & hospitality services (34,000), and construction (33,000). On a seasonally adjusted basis, payrolls in retail trade fell by 12,000 jobs; it is worth noting that the not seasonally adjusted data show an increase in retail payrolls in April, but a smaller increase than is normal for the month of April, which suggests that the ongoing round of store closings continues to weigh on retail payrolls. Between the modest gain in average hourly earnings and the decline in the average length of the workweek, aggregate private sector labor earnings rose by just 0.1 percent in April, but are nonetheless up 5.0 percent year-on-year, easily outdistancing inflation and supporting growth in personal income and, in turn, growth in consumer spending.

Though not without blemishes, the April employment report is a strong report. The broader economy remains on solid footing, meaning that coming months will see continued job gains and faster wage growth.





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