

*This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

## March Employment Report: Labor Market Moves, But Doesn't Go Far These Days

- › Nonfarm employment rose by 178,000 jobs in March; prior estimates for January and February were revised down by a net 7,000 jobs
- › Average hourly earnings rose by 0.2 percent, while aggregate private sector earnings rose by 0.1 percent (up 3.9 percent year-on-year)
- › The unemployment rate fell to 4.3 percent in March (4.256 percent, unrounded); the broader U6 measure rose to 8.0 percent

Welcome to the latest installment of *As the Labor Market Turns*, the long-running drama in which the labor market does what the labor market does and those analysts whose attention spans no further than the headline print on the monthly employment report make way too much out of it. In the latest installment, i.e., the March employment report, total nonfarm payrolls rose by 178,000 jobs, above our forecast of 109,000 jobs and even further above the consensus forecast of 55,000 jobs, with private sector payrolls up by 186,000 jobs and public sector payrolls down by 8,000 jobs. Prior estimates of job growth in January and February were revised down by a net 7,000 jobs for the two month period, as a sizable upward revision to January and a sizable downward revision to February basically cancelled each other out. Average hourly earnings rose by 0.2 percent, matching our forecast but half of the gain the consensus forecast anticipated. Of more relevance, however, is that the average length of the private sector workweek fell by one-tenth of an hour, meaning that even with the impressive gain in payrolls, aggregate private sector earnings rose by just 0.1 percent in March, leaving them up 3.9 percent year-on-year. The unemployment rate fell to 4.3 percent, matching our below consensus forecast, but the broader U6 rate rose to 8.0 percent. As we cautioned in our preview of the March employment report, an early end to the March establishment survey helped suppress the initial collection rate which, at 61.7 percent, is the lowest March rate since 2003. Recall that we made a similar point last month when the data showed the lowest February collection rate since 2000. As we've noted way too often over the past few years, these low initial response rates diminish the reliability of the initial estimates of nonfarm employment, hours, and earnings.

A month ago, we pointed to several factors that contributed to the weak headline print on the February employment report. One was the notably low establishment survey response rate, on top of which a strike amongst health care workers took roughly thirty thousand jobs off health care payrolls, previously announced layoffs in transportation and distribution services hit the books, and weather effects weighed on both job counts and hours worked. A resolution to the strike meant those jobs would be added back in the March data, and we expected payback for the weather effects, which proved to be the case. That can best be seen in the

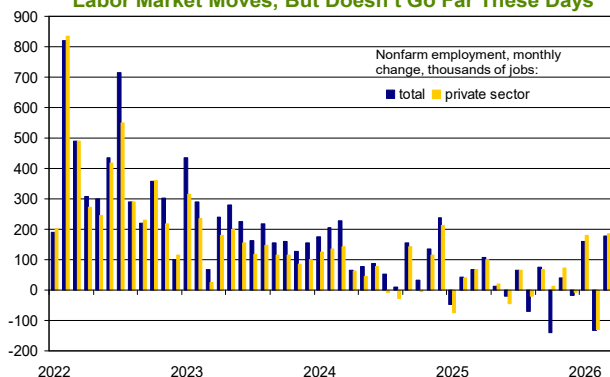
seasonally adjusted data; after February saw smaller increases in not seasonally adjusted private sector payrolls, including in construction and leisure and hospitality services, than are typical for the month, the March increases were larger than is typical for the month. After having slipped to 49.2 percent in February, the one-month hiring diffusion index, a gauge of the breadth of hiring across private sector industry groups, jumped to 56.8 percent in March, with the trend lying between the two.

The labor force participation rate fell to 61.9 percent in March, the lowest rate since November 2021. As we've for some time noted, a significant outflow of foreign born labor is acting as a heavy weight on labor force participation, which helps account for why the unemployment rate has basically not budged as the trend rate of job growth has slowed. That is another way of saying the breakeven pace of job growth, i.e., the rate of monthly job growth required to keep the unemployment rate steady, has fallen far below where it historically has been. This does not, however, mean there are no consequences of the sharply slower trend rate of job growth. One implication is that, while the layoff rate remains low, those who do get laid off are having a harder time finding a new job, which is reflected in the increased incidence of long-term unemployment, as we highlight below. That the broader U6 rate, which also accounts for underemployment, rose in March reflects an increase in the number of those working part-time for economic reasons and increase in the number of those marginally attached to the labor force.

Those taking a longer view of the data realize that by mid-2024 job growth had become much slower and much more uneven. Going back to mid-2024, the average monthly increase in nonfarm payrolls has been 45,000 jobs, which is actually above where we'd peg the breakeven pace of job growth. Our take is that the variability in the monthly estimates of the change in private sector payrolls hasn't changed much but is now coming around what is a much lower mean, making negative headline prints more common than has historically been the case. Our view is that the slowing trend rate of job growth has very much been just as much, if not more, of a labor supply story as a labor demand story. Either way, we don't expect much to change in the labor market any time soon.



### Labor Market Moves, But Doesn't Go Far These Days



### Long-Term Unemployed Unemployed for 27 Weeks or Longer

