Economics

Economic Indicator — April 5, 2024

March Employment: New Data, Same Story

Summary

Hiring plowed full steam ahead in March, with nonfarm payrolls once again blowing past expectations with an increase of 303K. Along with minimal revisions to prior months' data, the three-month average pace of payroll gains (276K) is running at its strongest pace in a year. The unemployment rate ticked down to 3.8% amid a rebound in the household measure of employment. Labor supply growth also looked strong in March, with the participation rate moving up to a four-month high of 62.7%. Robust labor supply growth over the past year has helped support the overall pace of hiring while reducing the inflationary pressures stemming from the jobs market. While average hourly earnings picked up in March with a 0.3% monthly increase, year-over-year growth slowed to nearly a three-year low of 4.1%.

In our most recent economic forecast update released on March 14, we laid out a base case of 100 bps of easing by the FOMC this year. That said, we made the case at the time that the risks were skewed towards less easing rather than more. Today's report further confirms that distribution of risks. We will update our Fed outlook after next Wednesday's CPI report, but based on what we know now, the strength of the labor market suggests the FOMC can continue to await further improvement on the inflation front before easing policy.

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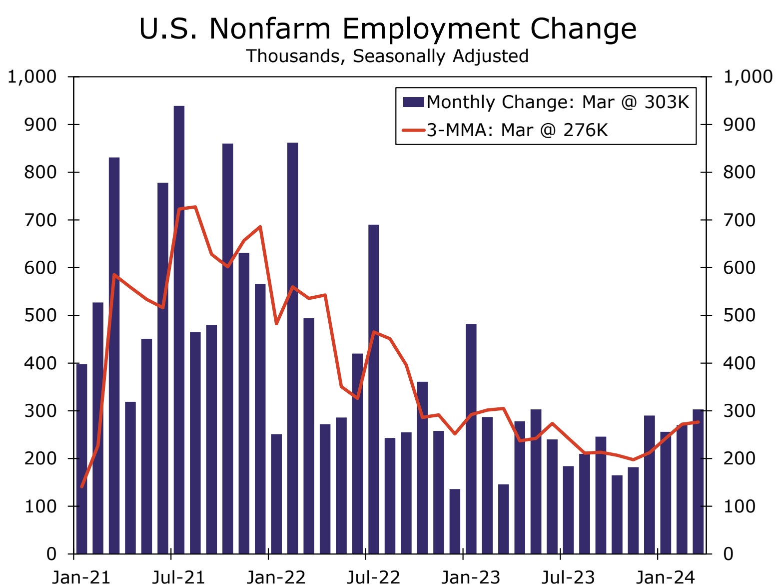
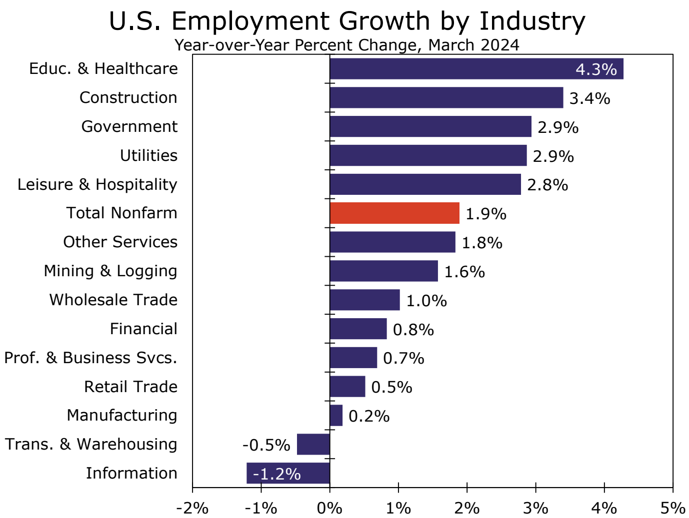


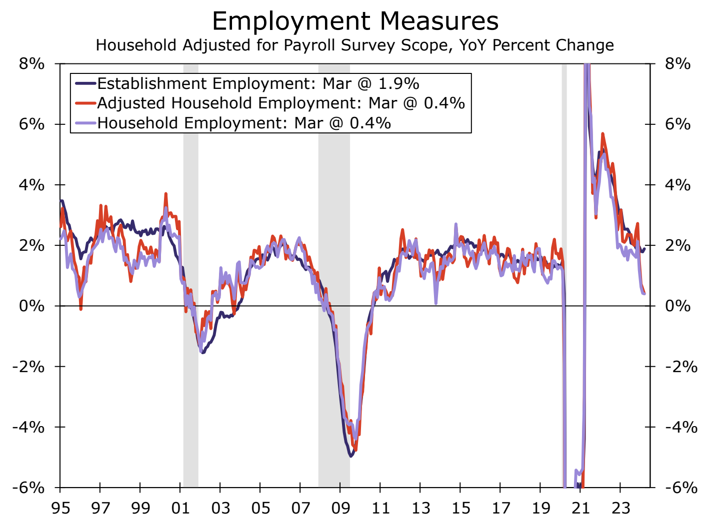
Source: U.S. Department of Labor and Wells Fargo Economics

Robust Job Growth in March Caps a Strong Q1

The U.S. jobs engine continued to chug ahead in March. Nonfarm payrolls grew by 303K in the month, topping consensus expectations for a 214K gain. Revisions to job growth over the prior two months added another 22K to the level of employment. Hiring was once again strong in the health care (+72K), government (+71K) and leisure & hospitality (+49K) industries. Over the past year, these sectors have led the way on employment growth in the United States (chart). Construction (+39K) and retail trade (+18K) also posted solid growth in the month, while manufacturing, financial services and professional and business services were largely unchanged.



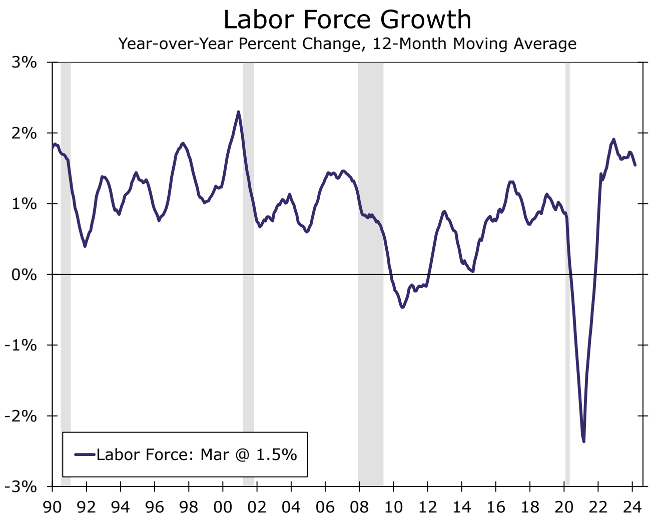
Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Unlike recent months, employment growth in March was also solid per the Household Survey. The more volatile household measure of employment rose by 498K, which slightly chips away at the unusually wide gap with the establishment measure of employment that has opened up in recent months (chart). With the number of unemployed workers edging down in March (-29K), the unemployment rate fell back to 3.8%. Labor force growth was also solid in March. The labor force participation rate rose to a four-month high of 62.7%, and the continued robust expansion of labor supply remains a support to overall hiring (chart).

Average hourly earnings (AHE) picked up slightly in March (+0.3%) and over the quarter (4.4% annualized). However, on a year-over-year basis, wage growth slipped to nearly a three-year low of 4.1% in a sign inflationary pressures from the jobs market continue to gradually subside. With fewer workers quitting their jobs and businesses reporting that they are having an easier time filling positions, we expect wage growth to slow a bit further in the months ahead, although wage gains do not need to ease much further to allay concerns over inflation. The Fed's preferred measure of labor costs, the Employment Cost Index, currently suggests compensation cost growth has returned to a pace that is nearly consistent with the central bank's 2% inflation goal after accounting for labor productivity growth (chart).



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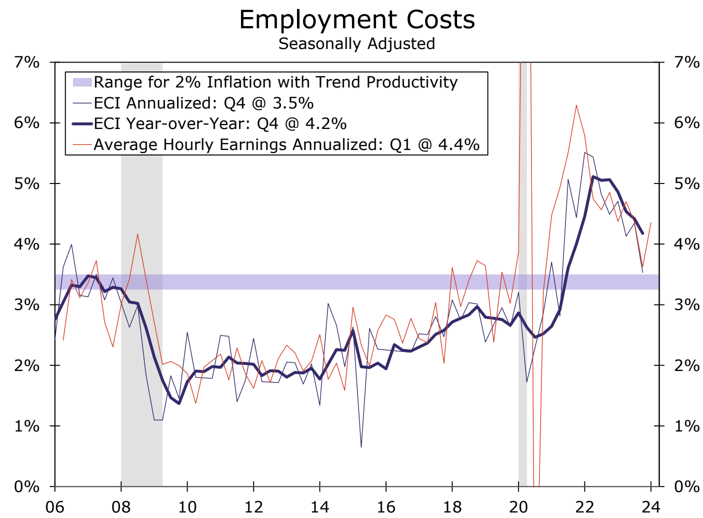

Source: U.S. Department of Labor and Wells Fargo Economics

For the quarter, nonfarm payroll growth averaged 276K per month. Furthermore, employment growth has gathered speed in each month of the year (+256K in January, +270K in February and +303K in March). We are skeptical that this recent acceleration will continue in the months ahead. Recent data point to a downshift in hiring plans and in job openings and are an indication that businesses are growing more comfortable with current staffing levels. Layoffs, while still low in an absolute sense, have edged back up recently as well. The more balanced state of the labor market can further be seen in the upward drift in the unemployment and under-employment rates since the start of last year.

For now, the labor market is flashing few warning signs that might cause the FOMC to preemptively start cutting the fed funds rates. That said, labor market downturns can sometimes begin quickly, a worry that likely will linger in the back of the minds of some FOMC participants. Returning inflation back to 2% for the long-haul remains the Fed's primary concern, and it will take at least a little more progress on the inflation front before the first rate cut occurs. We will be looking to next week's CPI report and the next report for the Employment Cost Index on April 30 for evidence that a healthier balance between supply and demand in the labor market is translating to lower inflationary pressures.

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