ECONOMIC UPDATE

REGIONS

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March Employment Report: A (Very Mild) Preview Of What Lies Ahead

- Nonfarm employment fell by 701,000 jobs in March; prior estimates for January/February were revised down by a net 57 jobs
- Average hourly earnings rose by 0.4 percent in March; aggregate private sector earnings were down 0.7 percent (up 3.2 percent year-on-year)
- The unemployment rate rose to 4.4 percent in March (4.383 percent, unrounded); the broader U6 measure rose to 8.7 percent

Total nonfarm employment fell by 701,000 jobs in March, with private sector payrolls down by 713,000 jobs and public sector payrolls up by 12,000 jobs, while prior estimates of job growth in January and February were revised down by a net 57,000 jobs for the two-month period. The big question ahead of today's release was the extent to which the March data would capture the layoffs that came at a breathtakingly fast pace over the back half of the month, after the BLS's establishment survey period. That forecasts of the change in nonfarm payrolls for March ranged from down by 4.0 million to up by 100,000 reveals the extent of uncertainty around the March data. While the March employment report captured more of those layoffs than most of us anticipated, it does not come close to capturing the full extent of those layoffs – recall that over the final two weeks of March, 8.744 million people filed for Unemployment Insurance (not seasonally adjusted). As such, however unsettling the headline number on the March employment report may be, the April employment report, due on May 8, will offer a fuller measure of the damage done to the labor market by the coronavirus and efforts to contain it.

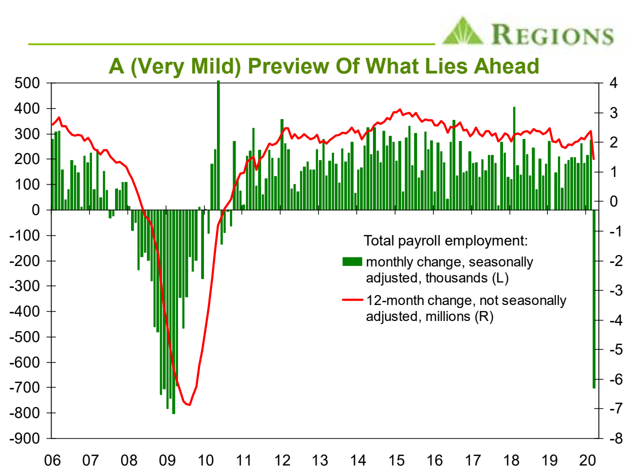
As we suspected would be the case, the response rate to the establishment survey was quite low. At 66.3 percent, this is the lowest response rate for the month of March since 2005 and below the 75.7 percent average for March over the past ten years. Why this matters is that the lower the response rate in any given month, the bigger the gap to be filled in the BLS's estimates; our point is not that we take issue with those estimates, but instead to point out that the lower response rate sets up larger than normal revisions to the initial estimate of March nonfarm employment. The BLS also noted that the response rate to the household survey, from which estimates of the labor force and the unemployment rate are drawn, was about 10 percentage point lower than the recent monthly average.

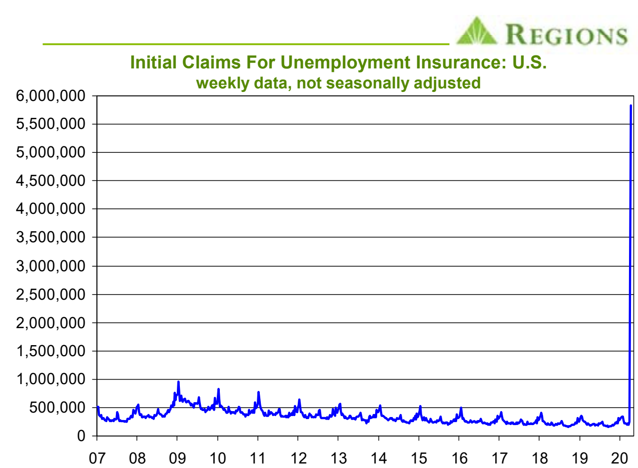
As with the reported decline in nonfarm employment, the unemployment rate does not fully capture the extent of displacement in the labor market that took place in March. The labor force fell by more than 1.6 million people, while household employment fell by 2.99 million people. As the same time, the number of those working part-time for economic reasons rose by 1.447 million people which, along with an increase in the number of people marginally attached to the labor force, helped push the broader U6 measure up to 8.7 percent from 7.0 percent in February.

Job losses were broad based across private sector industry groups, the most telling measure of which is the decline in the one-month hiring diffusion index. The index for the entire private sector fell from 57.9 percent in February to 36.0 percent in March, the lowest reading since October 2009. As was to be expected, leisure & hospitality services posted the largest decline of any of the broad industry groups, with a decline of 459,000 jobs, of which 414,700 came from restaurants letting workers go. That average hourly earnings rose by 0.4 percent in March simply reflects the extent of the shift in the mix of employment across industries. Over the past several months, leisure & hospitality services have consistently posted the fastest job growth, which has biased the measure of average hourly earnings lower.

The share of job losers reporting a permanent job loss rose slightly in March but is in line with the average shares seen over recent months, while 46.8 percent of March job losers reported they were on layoff. This is the highest share on record in the life of this series, which began in 1967. Moreover, BLS notes that recording errors may vastly understate the number of those characterized as being on temporary layoff. These figures offer some hope that once economic activity begins to normalize, many of these people will be able to return to work, but this depends on their employers making it to that point. It is here that we've argued policy can be of the most use, and the CARES Act offers help, but it is too soon to know how successful these efforts will be.

That said, keep in mind that the headline job growth number is a net number that accounts for the number of hires and the number of separations, and while the number of separations has risen, hiring has virtually ground to a halt amidst widespread shutdowns. The labor market won't truly begin to heal until both components have started to improve.





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