ECONOMIC UPDATE

REGIONS

April 2, 2021

March Employment Report: A Preview Of What Lies Ahead

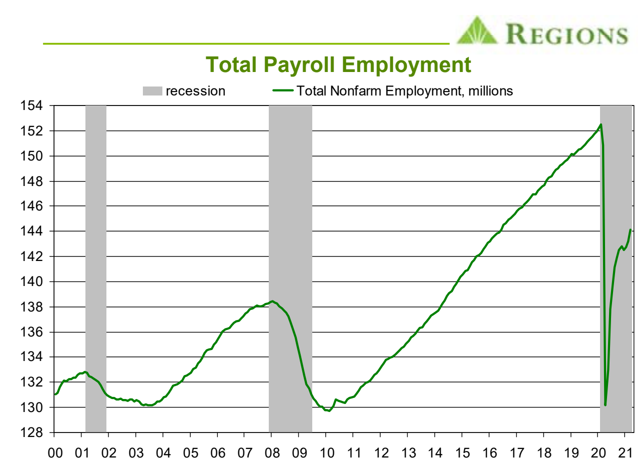
- Nonfarm employment rose by 916,000 jobs in March; prior estimates for January/February were revised up by 156,000 jobs
- Average hourly earnings fell by 0.1 percent while aggregate private sector earnings rose by 1.4 percent (up 2.1 percent year-on-year)
- The unemployment rate fell to 6.0 percent in March (6.048 percent, unrounded); the broader U6 measure fell to 10.7 percent

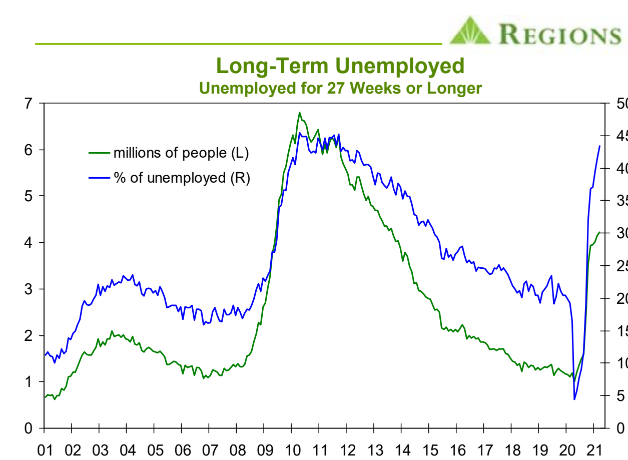
Total nonfarm employment rose by 916,000 jobs in March, a bit short of our forecast of 961,000 jobs but easily ahead of the consensus forecast of 660,000 jobs, with private sector payrolls rising by 780,000 jobs and public sector payrolls rising by 136,000 jobs. Prior estimates of job growth in January and February were revised up by a net 156,000 jobs. Despite a decline in average hourly earnings, which we think to be nothing more than calendar effects reflecting how early in the month the survey period ended, aggregate private sector wage and salary earnings rose by 1.4 percent thanks to the magnitude of the increase in private sector payrolls and a longer average workweek. More significantly, this puts aggregate private sector earnings above their pre-pandemic peak, which bodes well for growth in personal income excluding transfer payments. The jobless rate fell to 6.0 percent as an increase in labor force participation was more than offset by the increase in employment. As we noted in our weekly *Economic Preview*, in any given year March is a transitional month for the economy as it emerges from the typical winter lull, and we expected this year's March data would be boosted by a reversal of the weather effects that held down activity in February along with further reopening of the economy. All of these factors are visible in the March employment report, and we expect that as more and more people are vaccinated against the COVID-19 virus and the economy continues to reopen, job growth will be particularly strong during Q2.

For a sense of how strong job growth was in March, on a not seasonally adjusted basis total nonfarm employment rose by 0.93 percent from February, which is the largest March increase since 1951; the average March increase from 1990 through 2019 was 0.57 percent. Construction is one area in which payback from February's harsh winter weather is obvious. After having declined by 0.86 percent in February, the largest February decline since 2010, unadjusted construction payrolls rose by 3.01 percent in March, which translated into an increase of 110,000 jobs in the seasonally adjusted data. One area in which reopening effects are clear is leisure and hospitality services; the not seasonally adjusted data show payrolls in the broad industry group rose by 436,000 jobs in March after an increase of 461,000 jobs in February. The March increase was a bit watered down in the seasonally adjusted data, which show an increase of "just" 280,000 jobs, but what does stand out is that job gains were more broad based across the broad industry sector in March and less concentrated amongst restaurants. We think this will increasingly be the case over the next few months. Another area in which reopening effects are obvious is hiring amongst state and local governments; of the 129,000 jobs added in March, 125,600 were in the education segment, reflecting move back toward in-school learning across much of the nation that led to instructional and support staffs being called back to work.

Manufacturing payrolls were up by 53,000 jobs in March with job gains spaced out across the various industry groups, but one glaring exception is the decline in payrolls amongst motor vehicle producers. This decline will likely be more pronounced in April as a number of producers have announced cuts in shifts due to the semiconductor chip shortage that won't be resolved quickly. Payrolls in the goods producing industries (construction, manufacturing, and mining) rose by a total of 183,000 jobs in March, which largely accounts for the three-tenths of an hour jump in average weekly hours, but is hard to square with the reported decline in average hourly earnings as both wages and hours worked in these industry groups are above-average. It is a quirk of the data, however, that when the survey period ends prior to the 15th of the month, as happened in March, measured average hourly earnings are biased lower, and it is aggregate wage and salary earnings that is the relevant driver of personal income. That said, if we are correct in thinking leisure and hospitality services will drive job gains over Q2, that will act as a drag on growth in average hourly earnings and will hold down average weekly hours.

One troubling but largely overlooked element of the labor market data is the rising incidence of long-term unemployment. This group accounted for 43.4 percent of total unemployment in March, and this share will rise further in the weeks ahead. This is a reminder that, despite what will be robust job gains in the months ahead, the labor market still has far to go before it can be considered fully healed.





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