

US MARCH JOBS SLOWDOWN ATTRIBUTABLE TO BAD WEATHER

The BLS' measure of US job growth surprised to the downside in March, rising by a meager 98k, as an unseasonably severe snowstorm during the survey period distorted estimates (see Chart 1). Unlike the BLS, the ADP's estimate of private payrolls is less sensitive to swings in weather and reported a strong 263k gain in March.

Besides the weak increase in establishment payrolls, the other details in the BLS' Employment Report were solid, consistent with other statistical releases and surveys that suggest an improving economy. The unemployment rate fell 0.2pp to 4.5%, its lowest level since May 2007, as the household survey's measure of employment rose by 472k (second straight month of +400k) and unemployment declined by a significant 326k (see Chart 2).

Average hourly earnings increased 0.2% m/m (+2.7% yr/yr) and aggregate hours worked reversed its decline from the prior month, increased by a solid 1.4% yr/yr, pointing to decent growth in March incomes and better gains in private consumption toward the end of Q1 (see Chart 3).

The very low unemployment rate, now 0.2pp below the Fed's estimate of the longer-run natural rate of unemployment (so-called full employment) suggests tight labor markets and points to upward pressure on wage increases in the near term.

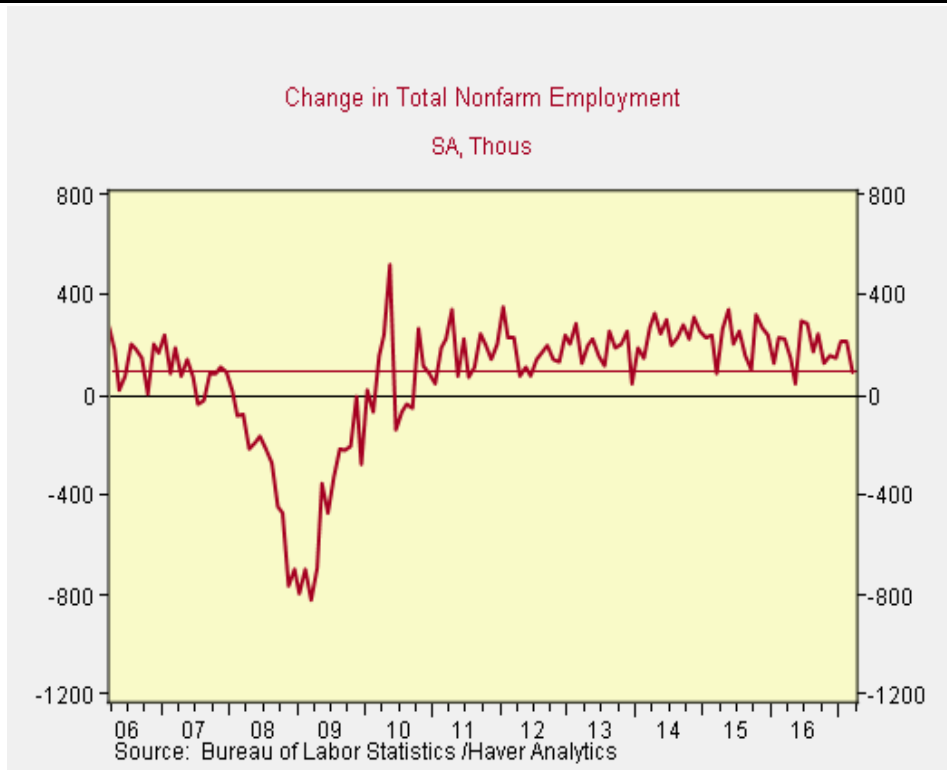
The goods sector, as one would expect, reflected the brunt of the unseasonable weather effects: (1) construction jobs increased by only 6k in March, a 53k downshift from February and 6 straight months of double digit gains (see Chart 4) and (2) average weekly hours worked was unchanged in the service sector, but declined by a sizable 0.5% in the goods sector (see Chart 5).

Service sector employment growth was only 61k. Notably, healthcare payroll growth rose only 14k, dramatically slower than its rise in February and well below its +30k monthly average, likely influenced by the uncertainty around healthcare policy reform. Expect this to be a temporary slowdown. In contrast, jobs in retail trade -- declined 30k in March following a 31k decline in February -- reflects a structural adjustment in retail jobs at brick-and-mortar stores under pressure from on-line retailers (see Chart 6).

Economic growth is improving despite this weak employment report. Expect continued upward drift in inflation and expect the ongoing labor market tightness will generate rising wages. In this environment, we expect the Fed will continue to raise interest rates to take away its monetary accommodation and will be rolling out its balance sheet downsizing plan.

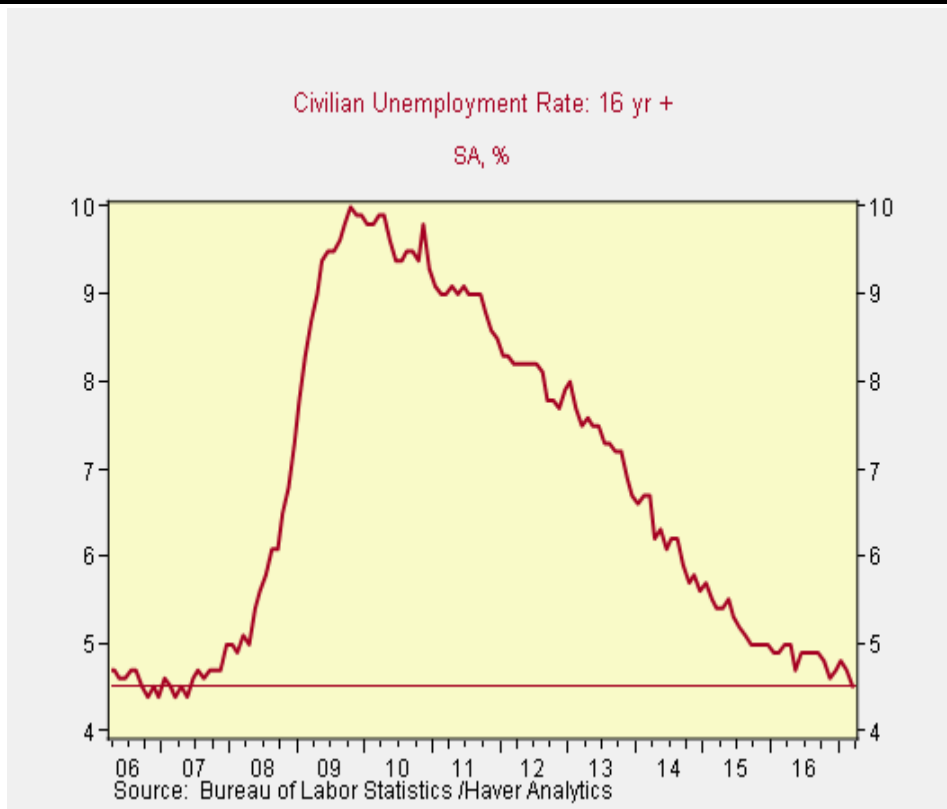
07 April 2017

Chart 1: Change in Total Nonfarm Employment



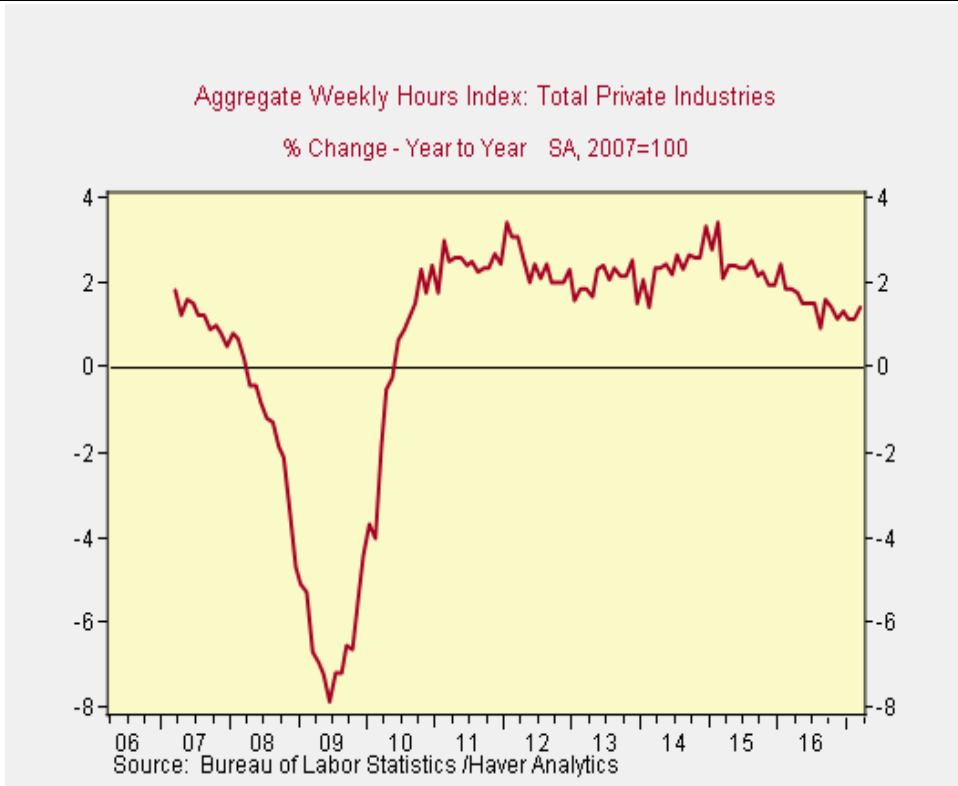
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 2: Civilian Unemployment Rate



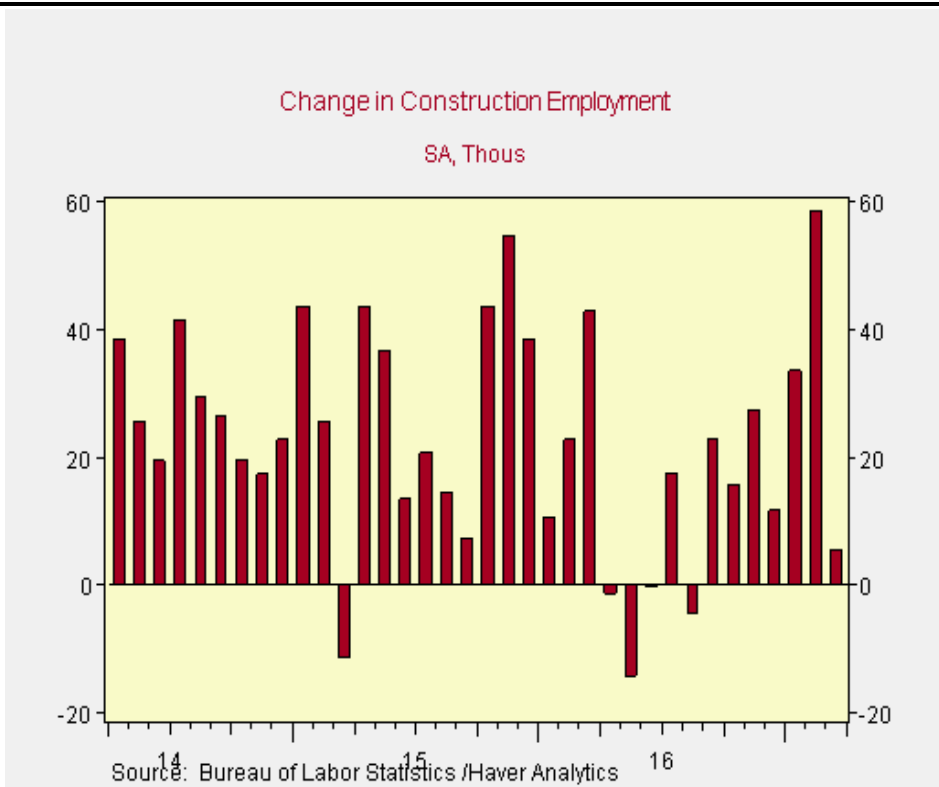
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 3: Aggregate Weekly Hours (yr/yr, %)



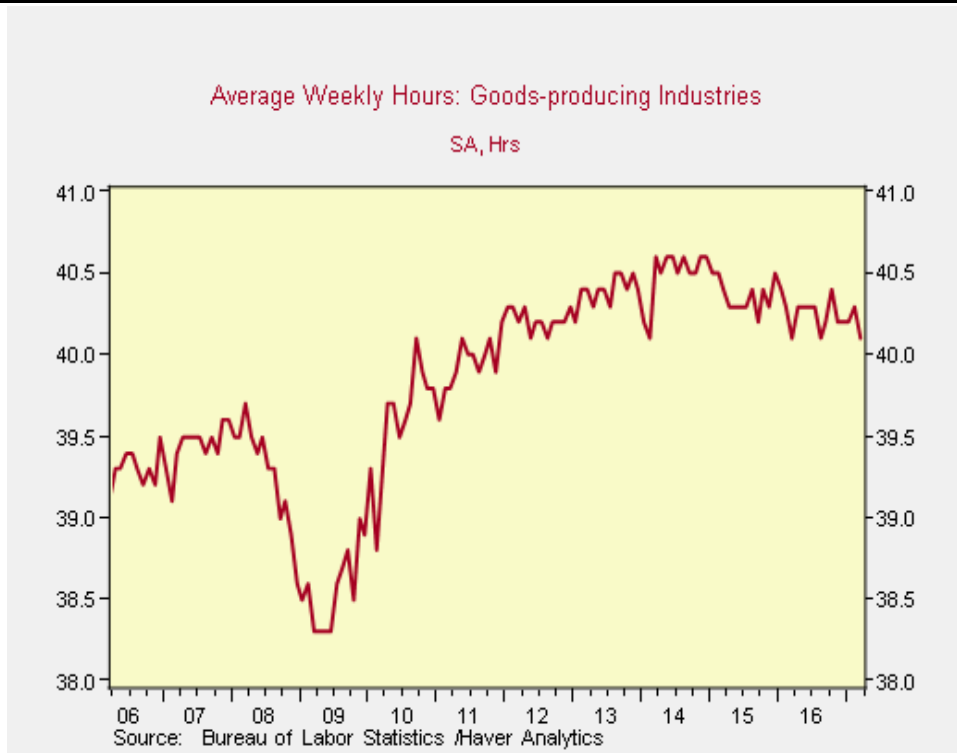
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 4: Change in Construction Employment



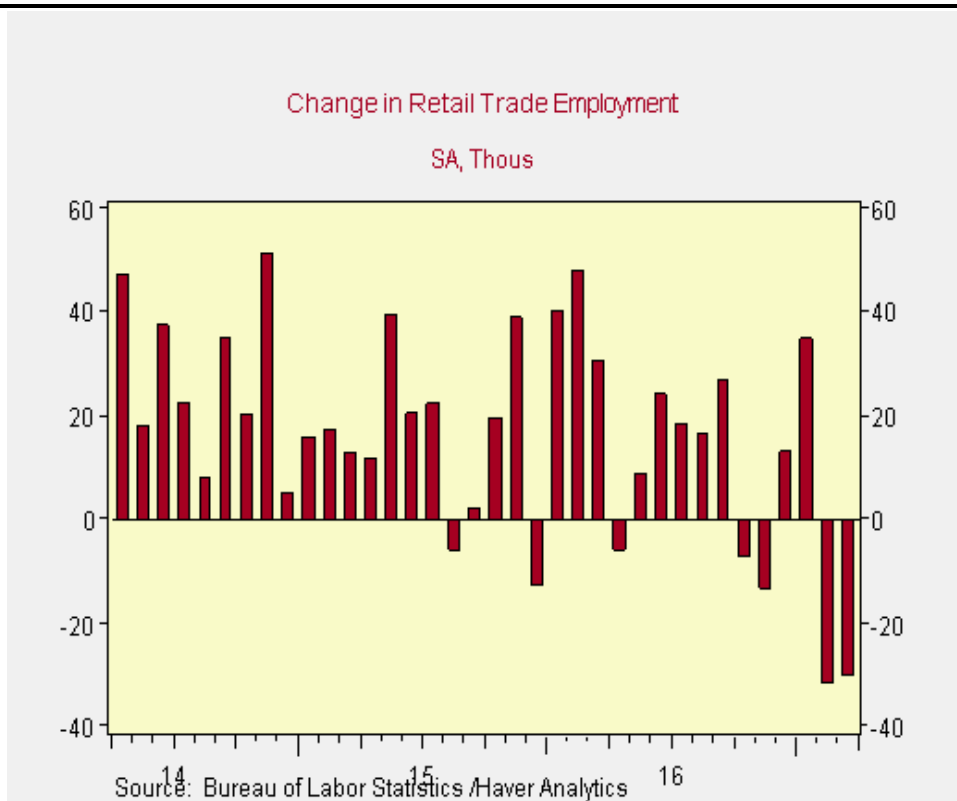
Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 5: Average Weekly Hours: Goods-Producing Industries



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 6: Change in Retail Trade Employment



Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

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