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US Non-farm payrolls: Fed to cut three times in 2024

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Employment change (thousands, unless otherwise noted)	Mar 24	Feb 24	Jan 24	Dec 23	Nov 23
Unemployment rate (%)	3.8	3.9	3.7	3.7	3.7
Avg. hrly earn all (Monthly % Chg)	0.3%	0.2%	0.5%	0.3%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.6%	0.5%	-0.1%	0.3%	0.7%
Nonfarm employment	303	270	256	290	182
Total private	232	207	196	214	152
Goods-producing	42	17	30	33	36
Construction	39	26	26	18	15
Manufacturing	0	-10	6	12	25
Priv. Serv providing	190	190	166	181	116
Wholesale trade	9	-3	-7	7	7
Retail trade	18	23	17	32	-43
Transp. & Warehousing	1	23	-4	-18	-11
Information	0	-3	8	13	17
Financial	3	-6	-4	6	4
Business services	7	17	48	13	10
Temporary help	-1	-12	8	-21	-14
Education, health	88	82	100	84	110
Leisure, hospitality	49	43	-3	41	10
Government	71	63	60	76	30
Federal Government	9	10	13	9	-1

Source: Haver Analytics

- The US job market remained hot in March with another above consensus report, likely boosted by immigration and mild weather. Employment rose by 303K, compared to consensus expectations of a 214K increase and the 270K gain in the month prior. Over the previous two months, there were +22K net revisions. The unemployment rate came down one notch to 3.8%, in line with consensus, and the part rate increased by two notches to 62.7%. Wage growth was steady at 0.3% m/m in the month and revised up one notch in February. The labor market remains strong and no small part of the recent strength is due to immigration, some of which may not be fully captured in the household survey. A recent CBO study found net immigration of over 3 million last year, largely due to undocumented workers. This has raised the sustainable level of job gains from 100K before the pandemic to about 180K. Today’s data is likely more evidence of that trend and supports the Fed’s view that the increase in labor supply is driving growth in the job market and the economy more broadly.

- We now expect the Fed to cut rates three times this year (July, September and December) compared to our previous view of four cuts in 2024. The economy continues to prove to be strong both cyclically and structurally. Higher potential growth, low household debt and limited household exposure to high rates from long-dated mortgages also means the neutral rate is higher. The Fed is in no urgent need to cut rates aggressively unless the labor market shows more material cracks or disinflation progress accelerates.
- The March jobs report continued to show a firming trend in more cyclically sensitive sectors and a broadening of job growth. Job growth outside of healthcare and government accounted for about half of employment gains and has averaged just under 50% over the past four months. This is a change from the period from July to November, where cyclically sensitive sectors accounted for under 30% of job gains.
- Wage growth was solid in the month, growing at 0.3% m/m compared to 0.2% in February, which was pulled down due to weather distortions. Average hours worked per week increased slightly to 34.4 implying a second consecutive month of 0.5% growth in total hours for the private sector or a three-month annualized rate of almost 2%. The fastest pace since June 2023. We believe the long-term for average hours worked is likely around 34.3 so we may see some pullback in total hours in the coming months. The mild March weather may have also supported the increase in average hours worked.
- The more volatile household survey showed job gains of 498K in the month after two consecutive months of decline. The three month average in March stands at 283K. The unemployment rate ticked down to 3.8% and remains around estimates of the natural rate of unemployment. NY Fed President John Williams put the natural rate at about 3.75%. But the key trend in the household survey remains the participation rate. The pickup in the participation rate likely reflects the increase in foreign workers who actually may be undercounted in the household survey so overall participation in the economy maybe somewhat higher. Prime-age participation edged down one notch to 83.4% but still stands at multi-decade highs. The Fed's view of labor supply as driving growth will be strengthened after today's report. Stronger labor input means the economy is capable of growing faster without stoking as much inflation.

Implications & actions

Re: Economic forecast — The strength in the US labor market provides more evidence that the underlying trend in the economy is solid and the Fed need not be in a rush to bring rates to closer to neutral. We now expect the Fed to cut three times this year compared to our previous forecast of four cuts.

Re: Markets — Bond yields and the broad dollar rose after the release and have sustained the increases given the upside surprise in job gains.

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