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US Labor market: cooler, but not cold

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Employment change (thousands, unless otherwise noted)	Mar 23	Feb 23	Jan 23	Dec 22	Nov 22
Unemployment rate (%)	3.5	3.6	3.4	3.5	3.6
Avg. hrly earn all (Monthly % Chg)	0.3%	0.2%	0.3%	0.4%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.0%	-0.1%	0.9%	0.1%	0.1%
Nonfarm employment	236	326	472	239	290
Total private	189	266	353	232	228
Goods-producing	-7	11	41	36	41
Construction	-9	12	26	26	19
Manufacturing	-1	-1	11	6	14
Priv. Serv providing	196	255	312	196	187
Wholesale trade	7	11	9	10	0
Retail trade	-15	41	22	27	-46
Transp. & Warehousing	10	-21	32	0	-37
Information	6	-10	-23	-9	13
Financial	-1	-1	-1	4	11
Business services	39	55	44	23	0
Temporary help	-11	3	17	-55	-49
Education, health	65	85	111	71	95
Leisure, hospitality	72	90	99	58	123
Government	47	60	119	7	62
Federal Government	8	9	12	1	2

Source: Haver Analytics

- Hiring cooled in the US in March, but the labor market remained strong enough to justify a final quarter point rate hike from the Fed in May. The 236K pace of hiring was in line with the consensus expectation and reflected gains in the leisure and hospitality sector, government, and professional/business services. There were signs of rate-sensitive goods sectors slowing, which collectively shed 7K jobs. The less reliable household survey showed a more robust 577K gain in jobs, which pushed the unemployment rate down by a tick to 3.5% (vs. 3.6% expected). Aggregate hours worked fell by 0.1% for the second month in a row, while average hourly earnings grew by 0.3% as expected, which is still a slower pace than what was seen at the end of 2022. Overall, the data wasn't far off of expectations, and with payrolls growth running above where policymakers have suggested they want to see it to prevent a further tightening in the labor market, this supports the case for a final 25bp rate hike in May.
- Hiring was concentrated in service sectors that have had more pronounced labor shortages than their rate-sensitive goods-producing counterparts. The leisure and hospitality sector led the job gains, and although headcounts in that

industry are still 368K below pre-pandemic levels, slower demand for discretionary services as higher interest rates weigh on demand should help bring the sector into better balance ahead. Indeed, the sector recorded a 0.8% decrease in hours despite strong hiring, suggesting that demand cooled and that the current hiring doesn't represent new demand for labor, but rather a filling of past job vacancies, in line with the drop in job openings seen in the sector at the end of February.

- Interestingly, wage growth in private services was a tame 0.2%, while goods-producing sectors that shed jobs saw wage growth accelerate to 0.5%. The latter likely reflects the composition of job losses, which were likely tilted towards lower-paying positions.
- The 0.1% drop in aggregate hours worked included drops in both goods and services, with the slowdown in goods sector activity holding back hours in the transportation and warehousing sector. Manufacturing hours were flat after falling in February, despite supply chain improvement, a sign that demand is waning in the sector, and in line with what has been reflected in the ISM survey. Overall, a strong January print meant that total aggregate hours worked were up by a 2.5% annualized pace over the first quarter, an acceleration from Q4 2022, and consistent with solid GDP growth.
- The household survey, which is more volatile and less reliable on a month-to-month basis, showed a 577K increase in jobs. That left the unemployment rate a tick lower, while there was an increase in the participation rate. The prime-age (25-54 years) participation rate remained steady at its pre-pandemic peak level. It's possible that as excess savings continue to dwindle ahead, labor force participation in that group continues to climb. The increase in participation over the first quarter helped to alleviate labor shortages, and put downwards pressure on wage growth, a positive sign for the Fed.
- Extending recent strength, the education and health care industry was the second largest contributor to employment growth. Hiring in that sector could continue to be supported by investment from state and local governments that are flush with cash. Payrolls in the information sector that saw heightened layoff announcements early in the year shed 29K jobs in the first quarter but eked out a 6K gain in March.

Implications & actions

Re: Economic forecast — This report adds to a plethora of data that suggest that the labor market is cooling, in line with the upward revision to initial jobless claims, the drop in job openings, and the ISM services index decline. However, the slowdown isn't pronounced enough to make a sustainable return to on-target inflation attainable, and the Fed is therefore poised to hike rates by a final 25bps in May.

Re: Markets — Bond yields increased following the surprise drop in the unemployment rate, as markets recalibrated to reflect the higher odds of a Fed hike in May based on the resilient labor market.

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