Economic Update

April 5, 2024

Job Gains Top 300,000 in March; Unemployment Rate Remains Historically Low; No Red Flags

- **The March jobs report was very strong, with job gains of above 300,000 and a small decline in the unemployment rate to 3.8%.**
- **The details were good, with a big increase in the labor force.**
- **Wage growth slowed in March, but continues to run well ahead of inflation.**
- **Employment in leisure/hospitality services finally moved above its pre-pandemic peak.**
- **The FOMC will likely cut the fed funds rate at its meeting in mid-June.**
- **Job growth will slow over 2024 but remain solid.**

The US labor market remains very strong, with job growth of 303,000 in March according to a survey of employers from the Bureau of Labor Statistics, well above consensus expectations of around 210,000. There was a small downward revision to job growth in February, from 275,000 to 270,000, more than offset by an upward revision to job growth in January to 256,000 from 229,000. Over the past three months the US economy has added 276,000 jobs on average, far above the pre-pandemic pace of around 165,000. The private sector added 232,000 jobs in March, up from 207,000 in February, with government job growth of 71,000.

The unemployment rate fell to 3.8% in March from 3.9% in February; the unemployment rate had been at 3.7% from November 2023 through January. The unemployment rate has now been below 4% for 26 straight months, the longest such stretch since the late 1960s. The numbers in the household survey (different from the survey of employers) were very positive. According to the household survey, the number of people employed jumped by almost 500,000 in March, the biggest increase since November. Job growth in the household survey has been lagging that in the employer survey over the last few months; the March numbers have narrowed that gap. The number of people in the labor force (employed or looking for work) rose by 469,000 in March. The labor force participation rate—the share of adults working or looking for work—rose to 62.7% in March from 62.5% in February. The labor force participation rate was consistently above 63% prior to the pandemic. Strong growth in the labor force allows for strong job growth without inflationary pressures.

Average hourly earnings rose 0.3% (0.347% before rounding) in March from February; this followed wage gains of 0.2% in February (revised higher from 0.1%) and 0.5% in January (no revision). Average hourly earnings were up 4.1% in March from one year earlier, down from 4.3% in February, 4.4% in January, and almost 6% in early 2022. Slowing wage growth will support a further easing in inflation in 2024.

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Goods-producing industries added 42,000 jobs in March, up from an increase of 17,000 in February. Construction accounted for 39,000 of those jobs, with an additional 4,000 in manufacturing. Private service-providing industries added 190,000 jobs in March, the same number as in February. Education and health care employment rose by 88,000 over the month. Leisure/hospitality services employment increased by 49,000 in March, and is now finally above its pre-pandemic peak in February 2020. Employment increased by 20,000 in retail trade and by 7,000 in professional/business services. Employment fell for a second straight month in temporary help services, although the March decline was a small 1,000; this industry often leads the overall labor market. Local government employment rose by 49,000, with increases of 13,000 in state government and 9,000 in federal government.

The average workweek rose by 0.1 hour to 34.4 hours. With more jobs, higher wages, and a longer workweek, total labor market income increased by a very strong 0.8% in March, the biggest gain since November. With prices likely up 0.3% in March (CPI to be released April 10), households enjoyed a large gain in real purchasing power, which should support consumer spending growth in the spring.

The March jobs report was a very good one, with no red flags. Job growth was very strong; the unemployment rate fell and remains extremely low; the labor force participation rate increased; and although wages grew more quickly than inflation, the pace of wage growth slowed from February. Progress on reducing inflation has slowed in early 2024, putting a near-term cut in the federal funds rate on hold. But inflation should start to move lower again over the next couple of months, and the Federal Open Market Committee is likely to cut the federal funds rate at its meeting on June 12. In a press conference on March 20 Federal Reserve Chair Powell said strong job growth, on its own, would not be enough to prevent the FOMC from cutting the fed funds rate.

Job growth is likely to slow from its current pace over the course of 2024 but remain solid. High interest rates will continue to weigh on the economy in the near term, and consumer spending growth will slow as households increase their saving. But the labor market will remain strong, and the current expansion will continue throughout 2024 and into 2025. The unemployment rate is set to move gradually higher this year, to above 4% by the end of 2024, but will remain historically low.

The S&P 500 is up 0.6% shortly after opening on the good jobs report. Yields are slightly higher, with the yield on the 10-year Treasury note up 4 basis points to 4.36%, and the yield on the 2-year note up 4 basis points to 4.70%. The dollar has strengthened against a basket of currencies. After opening higher, the price of a barrel of West Texas Intermediate crude oil is down on the day by about 5 cents to $86.54.

The fed funds futures market is pricing in an 89% probability of no change in the fed funds rate on May 1, with a 2% probability of a 25-basis point cut; yesterday, the market was pricing in an 11% probability of a 25-basis point cut. The market is pricing in a 57% probability of a cut of 25 basis points or more by June 12, down about 9 percentage points from yesterday.

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