Northern Trust

ECONOMIC UPDATE

April 3, 2015

Northern Trust
Global Economic Research
50 South LaSalle
Chicago, Illinois 60603
northerntrust.com

Carl R. Tannenbaum
Chief Economist
312.557.8820
ct92@ntrs.com

Asha G. Bangalore
Economist
312.444.4146
agb3@ntrs.com

- ## Soft U.S. Employment Data: Not the End of a Trend

The headline numbers of the March employment report are disappointing against the backdrop of consistently strong reports for past several months. But putting things in perspective suggests that we have not completely forfeited the positive momentum in America's labor market.

Payroll employment rose only 126,000 in March, and downward revisions to the prior two months reduced payrolls by 69,000. The three-month moving average is now 197,000, down from 317,000 in the fourth quarter.

There are some transitory factors at play. Construction employment declined for the first time in more than a year, likely because of poor weather through much of the first quarter. Eating—and-drinking establishments recorded a tepid increase in hiring after a strong jump in February. This also may be due to unusual seasonality.

But it is also clear that the supply-side reaction to falling oil prices has occurred sooner and more powerfully than the demand-side benefit of cheap gasoline. The mining sector lost 11,000 jobs in March, which were concentrated in support activities inclusive of the oil and gas sector. Manufacturing employment also fell for the first time since June 2013, reflecting weakness in energy prices and the strong dollar.

There was some good news in today's announcement. The unemployment rate held steady at 5.5%, and the labor force participation rate has held steady at 62.8% for four straight quarters. Given the long-running influence of retirement on this reading, a steady state suggests some return of formerly discouraged workers. The share of long-term unemployment at 29.8% is down 1.3 percentage points from the prior month. The median duration of unemployment fell to 12.2 weeks from 13.1 in February.

Hourly earnings increased 0.3%, putting the year-to-year gain at 2.1%; that isn't much changed from last month. Announcements by leading employers that wage increases are coming haven't yet registered in the official numbers.

The quarterly average numbers for hours worked show a deceleration that is consistent with expectations of soft gross domestic product growth in the first quarter. Labor market indicators -- initial jobless claims, job openings, and the quit rate – continue sending positive signals.

We continue to think that the spending gains from the energy "dividend" will emerge through the balance of the year and increase employment across a range of sectors. Today's outsized market reaction is likely due to the coincidence of Good Friday and employment Friday; trading is likely thinner than usual.

Federal Reserve Chair Janet Yellen has pointed out that Fed decisions are based on forward looking indicators, but today's reading suggests that the probability of a rate hike in June is now smaller than previously estimated. We continue to think that a September rate hike is likely, but the March figures could lead us, and the Fed, to update our expectations somewhat.