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Excellent Job Growth in March, Nudging the Unemployment Rate Lower; Wage Growth Normalizes to the Coolest Since Mid-2021

- **Payrolls rose more than expected in March and the unemployment rate edged lower.**
- **Average hourly earnings growth moderated to the coolest since mid-2021.**
- **Employment growth was solid in the household survey as well. Household survey employment has lagged payrolls over the last 12 months, likely reflecting an undercount of job growth among recent immigrants.**
- **One weak spot of the jobs report was an increase in the Black unemployment rate, which rose in March to the highest since August 2022.**
- **But on the whole, jobs and wages are rising solidly and aggregate payrolls are outpacing inflation, which will keep Americans spending in 2024 and propel the economy forward.**
- **Cooler wage growth will make the Fed a little more confident that inflation is sustainably headed back toward their target, a precondition for them to cut interest rates.**

March's jobs report delivered very good news: The economy is adding jobs rapidly, and wages are outpacing inflation. Nonfarm payroll employment rose a robust 303,000, much better than the 214,000 consensus forecast. Payrolls growth in January and February was revised up a net 22,000. After revisions, payrolls rose a brisk 276,000 over the last three months.

In the payroll survey, private sector jobs rose 232,000. There were 81,000 jobs added in health care and social assistance, 49,000 added in leisure and hospitality, and 39,000 added in construction. Government added 71,000 jobs on the month, with local governments doing most of that hiring.

The unemployment rate edged down to 3.8% from 3.9% in February. Employment rose a robust 498,000 in the household survey, reversing February's decline, while the labor force increased 469,000 and unemployment fell 29,000. The unemployment rate for men over 20 pulled back to 3.3% from 3.5%, for women over 20 edged up to 3.6% from 3.5%, and for teenagers edged up to 12.6% from 12.5%. The unemployment rate for White Americans was unchanged on the month at 3.4%, for Black or African Americans jumped to 6.4% from 5.6%, for Asian Americans fell to 2.5% from 3.4%, and for Hispanic or Latino Americans fell to 4.5% from 5.0%. The unemployment rate of Americans with a disability was 8.6% in March, up 0.4 percentage points from 8.2% in March 2023. The unemployment rate of native-born workers was 4.0% in March, up 0.3 percentage points from a year earlier. The unemployment rate of foreign-born workers was 3.6%, up from 3.2% a year earlier. Data on unemployment by native/foreign birth and disability are not adjusted for seasonal variations.

The labor force participation rate rose to 62.7% in March from 62.5% and was near the post-pandemic high of 62.8%. It was 63.3% in late 2019 and early 2020 before everything changed. The labor force participation rate of Americans ages 25-54 edged down to 83.4% from 83.5%, which was the highest since 2002. The participation

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rate for teenagers rose in March to the highest since 2009. Labor force participation for Americans 20-24 and over age 55 is still below pre-pandemic levels.

Average hourly earnings rose 0.3% on the month and 4.1% from a year earlier, down from 4.3% in February to the most moderate pace of increase since June 2021. The average workweek in the private sector lengthened to 34.4 hours in March from 34.3 in February and was the longest since December. With higher employment and a longer workweek, aggregate weekly hours worked on private payrolls rose a solid 0.5% on the month and 1.7% on the year in March. Aggregate weekly payrolls rose 0.8% on the month and jumped 5.9% on the year.

The government hasn't published the March CPI yet, but the CPI rose 3.2% in February, undershooting average hourly earnings' increase in March. Comerica forecasts for the CPI to increase 3.5% on the year in March, with its acceleration due to higher prices of gasoline and some foodstuffs, partially offset by slower increases of shelter costs and used cars and trucks. Aggregate earnings of all workers on American payrolls solidly outpaced inflation over the last year, good news for the spending power of average households. At the same time, the economy-wide slowdown in inflationary pressures is extending to hourly earnings. The Fed's policymakers will be more confident that inflationary pressures are easing after seeing wage growth moderate in March. The Fed has repeatedly said that more confidence on this point is a precondition to cut rates this year.

There is an eye-catching disconnect between solid job growth in the payroll survey over the last year, with jobs up 244,000 per month, and a more modest increase in the household survey, up just 51,000 per month. The disconnect likely reflects the BLS undercounting growth of labor force participation and employment among recent immigrants. A review of the data sources by two respected think-tank scholars, Wendy Edelberg and Tara Watson, suggests the household survey could be understating labor force growth by 150,000-200,000 per month recently. This undercount is unlikely to be affecting the payroll survey, so analysis of the state of the job market should put more weight on the green light of job growth in the payroll survey, and less weight on the yellow light from weaker employment growth in the household survey. Measurement of the unemployment rate is less sensitive to assumptions about immigration, so its modest increase over the last year is likely signal, not noise.

One weak spot of the March jobs report was the increase in the unemployment rate of Black or African-American workers, which rose in March to the highest since August 2022. Unemployment rates for racial groups are more volatile than those of all Americans, but even so, March's increase in Black unemployment is significant. In past business cycles, Black workers have been the last to be hired during expansions and first fired during contractions, so an increase in the Black unemployment rate is eye catching to forecasters. Even so, the rest of the jobs report shows the labor market to be in quite good shape, so the data point is unlikely to be a sign of broader weakness this time. On net, the job market was in good shape in March. With jobs and wages rising and inflation moderating, Americans will continue to spend this year, extending the economic expansion.