Economic commentary from the Investment Advisory Group

Labor market remains resilient in March, though cooling trend is clear

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Executive summary: U.S. payrolls in March added 236,000, roughly in-line with the consensus of 230,000. The prior two months were revised downward, subtracting 17,000 jobs. The six-month average edged down to 314,500, which is still nearly twice the pre-pandemic 3-year average of 177,000 per month. Meanwhile, the unemployment rate ticked lower to 3.5%.

However, the signs of cooling are clear. For instance, four of the 10 major industry groups didn't add workers for the second-consecutive month. The monthly pace of average hourly earnings and hours worked fell as a result of the labor force participation rate rising for the fourth month in a row. That should put downward pressure on average hourly earnings and hours worked.

Furthermore, the labor market's cooling trend becomes more evident when coupled with other labor market data, such as the recent bump higher in weekly jobless claims, fewer job openings, and fewer workers quitting voluntarily. Accordingly, we believe this cooling trend removes the urgency for the Federal Reserve (Fed) to hike rates again at the May 3 meeting. That said, the Fed's decision will hinge on the broader inflation data and there are three key reports that will be released between now and then.

Component	March	Prior month	Six-month average	Comment
Change in payrolls	236,000	326,000	314,500	6-month average continues to drift modestly lower. Net revisions subtracted 17K for January and February. Pre-pandemic 3-year average was 177K/mo.
Unemployment rate (U-3)	3.5%	3.6%	3.6%	Slipped in March as 480,000 workers re-entered the workforce but is up from the cycle low of 3.4% in January.
Labor force participation rate	62.6%	62.5%	62.4%	Rose to the highest level since February 2020, though remains 0.7 percentage points below the December 2019 level.
Average hourly earnings (YoY)	4.2%	4.6%	4.7%	The monthly pace rose 0.3%, cooler than the 12-month average. Similarly, the non-supervisory pace rose 0.3%, while the annual pace cooled to 5.1%.
Average weekly hours worked	34.4	34.5	34.5	Fell for the third month in a row. Manufacturing hours held steady at 40.3 as did overtime hours at 3.0.

Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

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TRUIST

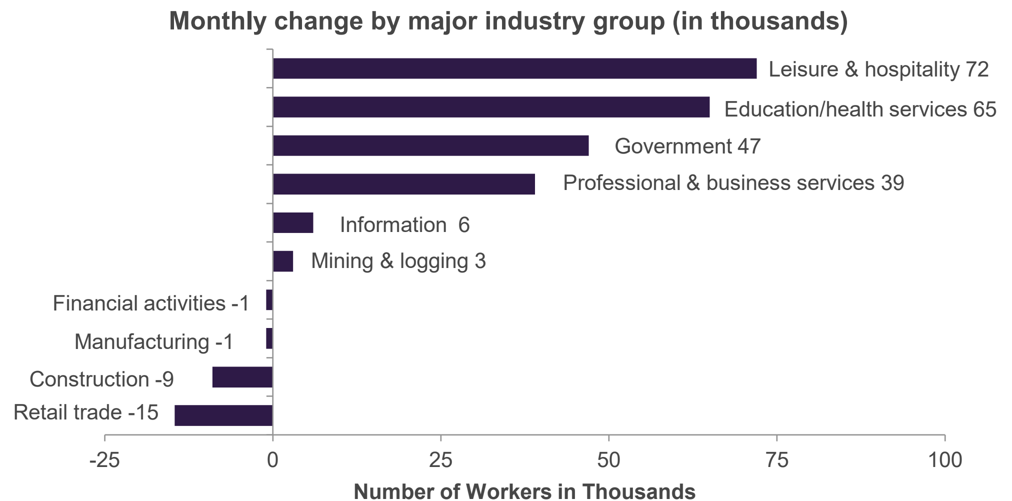
Wealth

A review of the major industry trends

Private payrolls increased by 189,000 workers, which is the fewest in 27 months. Government payrolls rose by 47,000. Service-providing industries added 196,000 positions, but goods producers shed 7,000 workers.

Additionally, the number of voluntary part-time workers dropped by 650,000 combined in March and February. That's a very large decline in a two-month period and could indicate employers trimming part-time workers, which typically involves little or no severance benefits.

Despite solid headline job growth, four major industry groups didn't add jobs for the second-consecutive month.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Leisure & hospitality continued to lead the job gains, adding 72,000 workers in March. Roughly 70% were by restaurants, which hired 50,300 to extend an impressive stretch of job gains to 27 months.

Education added 34,100 positions during the month between private educational services (15,000) and government (19,100). The government educational hiring was roughly one-third state jobs and two-thirds local.

Within professional & business services, temporary help services cut payrolls by 10,700, the third decline in the past five months. Nearly 95,000 workers have been let go over that span.

Retail trade shed 15,000 workers; however, general merchandise payrolls added 14,000 positions in March, the fourth-consecutive monthly increase, for a total of 87,000. That's after snapping an ugly seven-month losing streak during 2022, which lost 170,000 positions over that span.

Transportation payrolls appear to be stabilizing, adding 10,000 workers in March. That's after shedding 26,000 positions from November 2022 to February, mostly within trucking, couriers, and warehousing & storage businesses. Yet, warehousing & storage businesses cut 11,800 more workers in March.

Unemployment rate down, while wages cool and hours dip

The unemployment rate edged down to 3.5% in March from 3.6% in February. The cycle low was 3.4% this past January, which was also the lowest level since May 1969.

The labor force added 480,000 in March, the fourth-consecutive monthly increase. The labor force participation rate rose by 0.1% to 62.5%, its highest level since February 2020. However, it remains 0.7 percentage points below the December 2019 level.

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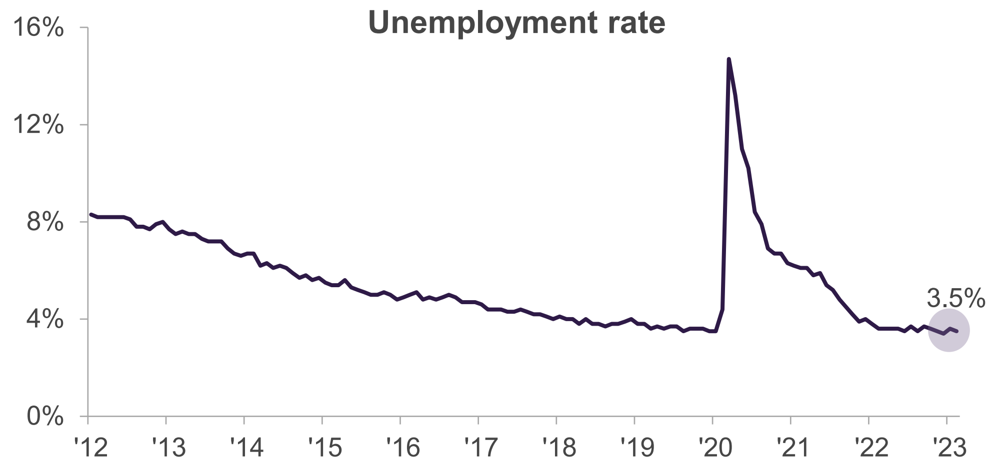
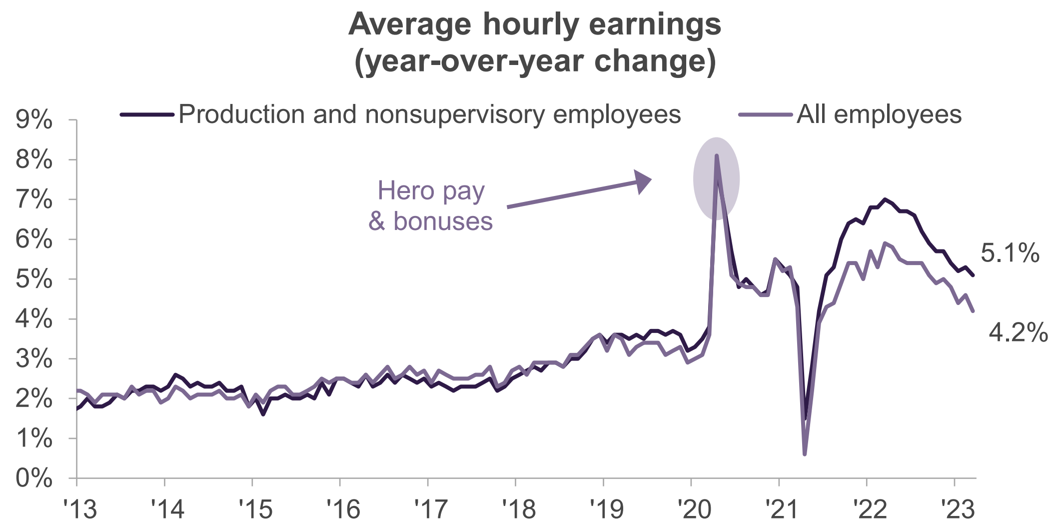


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Average hourly earnings rose 0.3% month over month and increased 4.2% from a year ago, the coolest pace in 21 months. Still, the annual pace remains above the pre-pandemic rate of 3.0%.

The pace of average hourly earnings for rank & file workers—officially known as production & nonsupervisory employees—rose 0.3% during March, the coolest pace in 26 months. It rose 5.1% on a year-over-year basis, significantly above its pre-pandemic rate of 3.2%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic post-pandemic wage gains have been concentrated.

The annual pace of average hourly earnings for production & nonsupervisory employees continued to cool in March.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Hours worked—officially known as average weekly hours worked for all employees—fell by 0.1 to 34.4, which is on par with the pre-pandemic 10-year average of 34.4. Within manufacturing, hours worked held steady at 40.3 as did overtime hours, which stayed at 3.0 for the third month in a row. Both are roughly in-line with their respective long-term averages.

Our take

This is yet another report showing that the labor market is cooling from very strong levels but remains solid. Overall demand appears to be holding up, though equally stepping down from strong levels.

The labor market's cooling trend becomes more evident when coupled with other labor market data, such as the recent rise in weekly jobless claims, fewer job openings, and fewer workers quitting voluntarily (the so-called quit rate). The cooling has also been seen in the hiring components in other surveys, including the ISM manufacturing and services surveys as well as the Federal Reserve's regional conditions surveys in the districts.

In general, these bolster the case for the Fed to "pause" their rate hikes in May. Inflation has been moving in the right direction, but it remains uncomfortably high and well above the Fed's 2% target, meaning the Fed will rightly remain focused on curbing inflation, aka price stability. As the past two years have illustrated, once the inflation toothpaste is out of the tube, it's extremely difficult to regain control. Historically, it has taken years and required a recession to do so.

Yet, there are three key inflation reports being released between now and the Fed meeting on May 3. Two of those reports – the Consumer Price Index and the Producer Price Index – will be released next week. The third is the price index for personal consumption expenditures, which comes out the last week of April.

Moreover, the Fed will likely closely scrutinize credit conditions, including how much banks are borrowing from the Fed's credit facilities such as the discount window. It does appear that much of the liquidity concerns have started to subside in the past few weeks. Additionally, we believe that the Fed will pay close attention to the banks' first quarter earnings reports, which will kick off late next week.

Lastly, we maintain our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. More importantly, the Fed is hamstrung by inflation. Cutting rates to support the economy appears unlikely in the near term, especially with still-solid employment trends. While deeper rate cuts are plausible in the event of a sharper recession, we maintain our view that the coming economic slowdown will be relatively mild. Hence, we believe that the Fed rate tightening cycle is effectively over, though wouldn't rule out that the Fed could do one more rate hike if inflation persists. Ultimately, this likely means that the Fed keeps rates higher for longer than markets currently expect.

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