Truist Advisory Services, Inc.

Economic commentary from the Investment Advisory Group

Labor strength continued in March despite Russia conflict – validates Fed's laser focus on inflation

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Executive summary: U.S. payrolls in March added 431,000, and while it missed the consensus of 490,000, it was still very good. It was coupled with 95,000 more jobs during January and February than previously reported.

Once again, most of the additional component figures strengthened. The unemployment rate fell to 3.6% from 3.8%, while wages and the labor force participation rate both rose.

This level of job growth points to a strong economy, albeit overheating. It also clearly illustrates that the U.S. economy should power through the risks associated with the Russia-Ukraine conflict, including higher energy prices.

It also underscores our view that hotter inflation readings will linger for longer, but also reinforces our "no recession" call. Indeed, inflation-adjusted growth will be lower than we expected in '22, but we don't see the makings of a recession at present. Furthermore, the Federal Reserve (Fed) will remain laser focused on inflation, which equates to faster-than-expected rate hikes in '22.

Component	March	Prior month	Six-month average	Comment
Change in payrolls	431,000	481,000	599,500	Upward revisions to Dec and Jan added 95K. Pre-pandemic 3-year average was 181,000 per month.
Unemployment rate (U-3)	3.6%	3.8%	4.0%	Another big jump of 418K in the size of the labor force. There are still 1.6 million fewer workers compared to the pre-pandemic level, with 1.5M within leisure & hospitality.
Labor force participation rate	62.4%	62.3%	62.1%	Older workers remain the biggest drag on the labor force participation rate due to retirements and COVID concerns.
Average hourly earnings (YoY)	5.6%	5.2%	5.3%	Non-supervisory stayed at 6.7% YoY for a third month, which is more than double the average of 3.3% during 2019.
Average weekly hours worked	34.7	34.7	34.7	Manufacturing hours stayed at 40.7, a 32-month high. The pinch due to the Russia-Ukraine conflict hasn't shown up yet in global supply chains.

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

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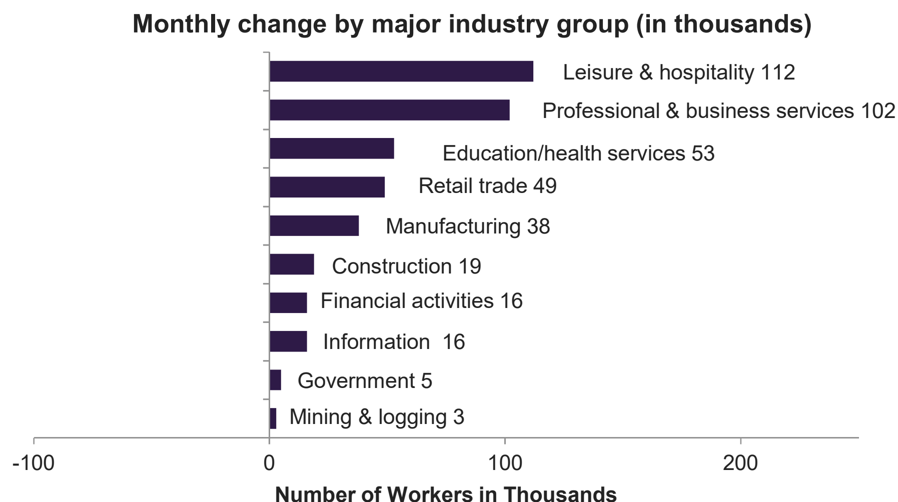
TRUIST Wealth

A review of the major industry trends

Private payrolls increased by 426,000 workers in March, while government payrolls rose by 5,000. Service-providing industries added 366,000 positions, while goods producers hired 60,000 workers. More importantly, none of the major industry groups shed workers during the month.

None of the major industry groups lost jobs during March.



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

The leisure & hospitality industry led the way, hiring 112,000. As impressive as that sounds, it is the fewest in 15 months. More than half (61,300) of the industry's total gain were restaurant workers.

The education/health care industry group added 53,000 during the month. However, the health care side was weaker, adding just 8,000 positions, the fewest in six months. Nursing care facilities continued to lose workers, down 10 of the last 12 months.

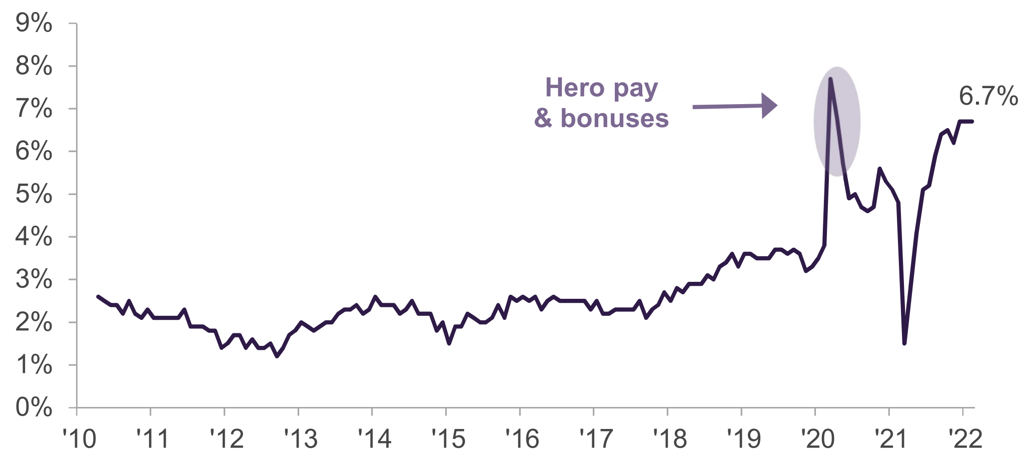
The government segment added just 5,000 as federal and state non-educational payrolls continued to shrink in March. Meanwhile, education payrolls (both government and private) have now increased for six straight months thanks to strong revisions in prior months.

Wage and income growth jumped

Wage and income growth increased as average hourly earnings rose 5.6% from a year ago. That's well above the 2019 average of 3.3% and double the 2.4% average for the decade before the pandemic (2009 through 2019).

Average hourly earnings for rank & file workers (officially known as production & nonsupervisory employees) held steady for the third month in a row, up 6.7% year over year, topped only by the large spike to 7.7% in 2020 for so-called hero pay for front-line workers and pandemic-related bonuses that many employers used to entice workers after the lockdowns. That's significantly above the 2.4% average from 2009 through 2019. This is important insofar as production & nonsupervisory employees are the bulk of all employees and where most of the dramatic wage gains have been concentrated.

Average hourly earnings for production and nonsupervisory workers held steady at 6.7% for the third month in a row.



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

Our take

The March jobs report was yet another in a long line of strong labor market indicators, including initial jobless claims, job openings, quit rates, etc. That it occurred in the midst of the escalation of the Russia-Ukraine conflict is even more impressive.

It also clearly illustrates that the U.S. economy should power through the risks associated with the Russia-Ukraine conflict, including higher energy prices.

The biggest impact to the U.S. economy as a result of the Russian invasion is aggravating inflationary pressures. Higher energy prices have already occurred, and volatility will likely persist. We continue to anticipate supply chains disruptions, though they have been limited thus far. Agricultural and key industrial commodities have jumped as well, and since Ukraine is a leading exporter; those will likely worsen.

While we'd applaud a peace agreement ending the Russian military action, we are less sanguine that ending the conflict will translate into reduced inflationary pressures in the intermediate term. For instance, Ukrainian farmers should have harvested the winter wheat and should be planting spring crops. Both are largely delayed along with the lack of supplies like seed and fertilizer, which would impact the yield of the spring crops. Moreover, higher inflation has already dented U.S. consumer and business sentiment.

The March jobs report also underscores our view that hotter inflation readings will linger for longer, but also reinforces our "no recession" call. More workers with more pay—while inflationary—points toward more economic growth, not less. That said, higher inflation does gouge real inflation-adjusted growth.

Furthermore, the Fed will remain laser focused on inflation, and the hotter inflation readings have bolstered its stance. That translates to faster-than-expected rate hikes in '22 to combat inflation. This also reduces growth, on the margin, by increasing borrowing costs, particularly for big-ticket purchases.

Accordingly, we recently lowered our outlook for real gross domestic product (GDP) to 2.2% year over year from 2.8% previously. While growth will be a notch lower than our forecast, we don't see the makings of recession at this time.

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