

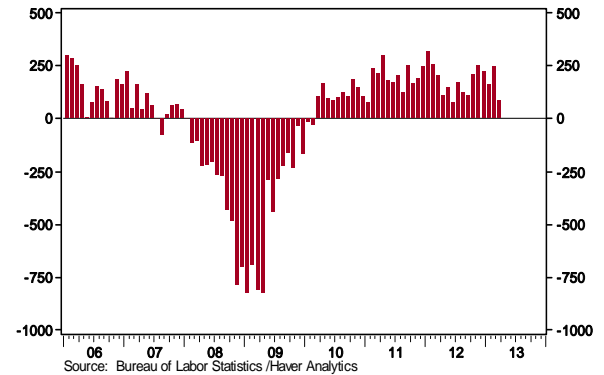
March Employment Report

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

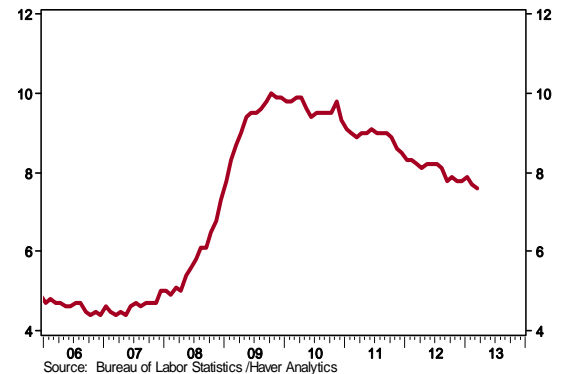
- Non-farm payrolls increased 88,000 in March, well below the consensus expected 190,000. Including revisions to prior months, nonfarm payrolls were up 149,000.
- Private sector payrolls increased 95,000 in March, also well below consensus expectations. The largest gains were for professional & business services (+51,000) and education & health care (+44,000). Government payrolls declined 7,000.
- The unemployment rate fell to 7.6% (7.574%) in March from 7.7% (7.736%) in February.
- Average weekly earnings – cash earnings, excluding benefits – were unchanged in March but up 1.8% from a year ago.

Implications: Get a grip. The report on the labor market is not strong, but it's not the very weak one many are saying. The most absurd commentary is that the federal spending sequester is hurting. Excluding the Post Office, which is not affected by the sequester, government jobs were up 5,000 in March versus an average decline of 4,000 per month in the past year. The key negative today is that nonfarm payrolls only grew 88,000 in March, substantially below consensus expectations. But including upward revisions to prior months, the net gain was a respectable 149,000. (Nonfarm payrolls are up 159,000/month in the past year.) Meanwhile, average weekly hours ticked up to 34.6 from 34.5, the equivalent of 330,000 jobs. As a result of the longer workweek, total hours worked increased 0.3% in March and are up 2.1% from a year ago. Average hourly earnings were unchanged in March, but still up 1.8% from a year ago. As a result, total cash earnings are up 3.9% from a year ago, or about 2.2% when adjusted for inflation. Ironically, it was the household survey, which generated the best headline, where the details were the weakest. The unemployment rate dipped to 7.6% in March, a new recovery low. But it was due to a 496,000 drop in the labor force while civilian employment, an alternative measure of jobs that includes small business startups, declined 206,000. Departures from the labor force pushed the participation rate down to 63.3%, the lowest since 1979. Keep in mind, however, that monthly changes in the labor force are volatile and in the past year the jobless rate has dropped 0.6 percentage points while the labor force is up 219,000. In other words, the downward trend in the jobless rate isn't due to a shrinking labor force. The big question is how the Federal Reserve reacts. It says a jobless rate of 6.5% could get it to raise rates. But, today's report undercuts its projection we won't reach 6.5% until mid-2015; it supports our case for mid-2014. Some comments suggest an alternative indicator is the share of unemployed who have quit their old job before they have a new one, a sign of confidence. But the quit rate rose in March to 8.4%, so the Fed may have to look elsewhere if it wants an excuse not to raise rates in 2014. Obviously, the labor market is very far from perfect. The unemployment rate is way too high and payroll growth too slow. What's holding us back is the huge increase in government, particularly transfers, over the past several years. Despite that, the plow horse economy keeps moving forward.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Mar-13	Feb-13	Jan-13	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	7.6	7.7	7.9	7.7	7.8	7.9
Civilian Employment (monthly change in thousands)	-206	170	-110	-49	33	98
Nonfarm Payrolls (monthly change in thousands)	88	268	148	168	188	159
Construction	18	49	24	30	28	14
Manufacturing	-3	19	14	10	9	6
Retail Trade	-24	15	22	4	23	18
Finance, Insurance and Real Estate	-2	8	7	4	6	7
Professional and Business Services	51	80	46	59	53	44
Education and Health Services	44	31	15	30	29	30
Leisure and Hospitality	17	26	31	25	26	24
Government	-7	14	-16	-3	-13	-6
Avg. Hourly Earnings: Total Private*	0.0%	0.1%	0.1%	1.2%	1.9%	1.8%
Avg. Weekly Hours: Total Private	34.6	34.5	34.4	34.5	34.5	34.4
Index of Aggregate Weekly Hours: Total Private*	0.3%	0.5%	-0.1%	2.9%	2.7%	2.1%

*3, 6 and 12 month figures are % change annualized