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In a nutshell

- The employment report for March offered reassuring confirmation that the labor market remains healthy.
- Although momentum has crested from the super-charged rate of advance seen last year, the rate of advance is still quite firm.
- Moreover, labors remain tight, albeit without worrisome signs of overheating.

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A Viewpoint from Joshua N. Feinman

U.S. Employment Report

Nonfarm payrolls rose 196,000 in March, strongly suggesting that the near-stagnant performance in February was a temporary aberration, owing in part to adverse weather. For the first quarter as a whole (taking into account the slight upward revisions to the prior two months), payrolls advanced an average of 180,000 per month – a deceleration from last year's blockbuster 223,000 clip, but more in line with the pace seen in 2017, and still firmly above what is likely consistent with demographic trends. If continued, this would keep labor markets on a gradually tightening trajectory.

The average workweek in March reversed what was likely a weather-related dip from the prior month, and together with the gain in payrolls put aggregate hours worked up 1.8% at an annual rate in the first quarter, broadly consistent with our view that gross domestic product (GDP) will post a moderate advance of about 1.5% (albeit with a sluggish productivity performance).

Average hourly earnings rose a modest 0.1% in March, following a strong 0.4% in the prior month, bringing their increase over the past 12 months down to 3.2% from a cycle high of 3.4%, and continuing a "two-steps forward, one-step back" pattern of gradual acceleration that we have been seeing in other indicators of labor costs too. In short, tight labor markets continue to exert some upward pressure on labor costs, but the acceleration remains moderate, and still to a pace that is in line with (rather than threatening a material overshoot of) the U.S. Federal Reserve (Fed's) inflation target.

The household survey was a bit on the softer side in March, after a strong performance in February. The headline unemployment held at 3.8%, but both the household survey's estimate of employment and the labor force dipped slightly, albeit following a period of strong gains. The labor force participation rate declined 0.2% in March, though it remains near the upper end of the range it has been in for the past few years. Still, this decline ought to remind us that the participation rate is unlikely to move materially higher given the downward pressure from demographics, and absent such a sustained increase in participation, the current pace of job growth will likely continue to tighten labor markets, if gradually. As a further sign that labor markets remain tight, the U6 unemployment rate measure held at a cycle low of 7.3% in March.

Bottom line: Labor-market momentum has cooled somewhat – consistent with some moderation in overall economic activity – though underlying trends remain solid. Together with other recent data, this ought to assuage those who have been worried that the economy might be headed for a sharper slowing. Still, considerable uncertainty attends the outlook, with a number of key risk factors remaining – related especially to global growth and trade negotiations. Against this backdrop, Fed policymakers are apt

to remain firmly on hold, awaiting further evidence on how the outlook evolves. Their inclination to patience is likely reinforced by the absence of material inflation pressures, and the recognition that they have already unwound a good deal of policy accommodation.

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Glossary

Gross domestic product (GDP)

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Headline unemployment rate (U3)

Official unemployment rate (U3) occurs when people are without jobs and they have actively looked for work within the past four weeks.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

U.S. Federal Reserve (Fed)

The **U.S. Federal Reserve**, often referred to as "**the Fed**", is the central bank of the United States.

U6 unemployment rate

The **U6 unemployment rate** is the broadest measure of unemployment including those who have given up looking for work and those who are working part-time but would prefer to work full-time.

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