

# THE ECONOMIC OUTLOOK GROUP



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## ECONOMIC TALKING POINTS

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April 2, 2010

### **March Jobs: Companies Are Cautiously Hiring Again**

After ruthlessly slashing 8.4 million jobs this recession, a growing number of companies have at long last begun to hire again, emboldened by the realization that this economic recovery may just be the real deal. Sure, the actual job numbers were not enough to warrant any uncorking of Champaign bottles, but there was enough in the report to suggest the labor market is finally showing signs of life and that the long trek back to full employment has at least begun.

Dominating much of the news on the March report has been the government's hiring of 48,000 temporary census takers and how it beefed up the overall job numbers. But the real story in this release is really elsewhere. What struck us immediately were the extraordinary revisions in the March report on January and February in the private sector hiring. Government statisticians grossly underestimated the increase in employment by companies since the beginning of the year! Indeed, the updated numbers are significant in their implications. For instance, both the January and February job reports initially pointed out that firms had cut their payrolls by an additional 33,000 and 18,000, respectively. But now we find that wasn't the case at all.

With the March release, Bureau of Labor Statistics (BLS) effectively said, "never mind" about those earlier reports. It turns out that firms have been actually "hiring" workers in greater numbers since the start of the year. Thus, instead of payrolls falling, we now get word that private payrolls increased!! 16,000 and 8,000 in January and February --- and now followed by an even stronger 123,000 during March. This means that in four of the last five months, the private sector has added more jobs than eliminated. Sure, the numbers are admittedly still small, but it clearly suggests that the worst is over in the labor markets. We expect the pace of hiring by companies to

accelerate in coming months as U.S. and foreign economic activity shift into higher gear.

Overall, payrolls jumped 162,000 last months, the largest increase since March of 2007. The hiring of 48,000 census takers did help swell the headline number, although actual government hiring netted only 39,000 jobs. (That's because there were 9,000 government posts eliminated at the state and local level, and at the US postal service.)

Of the 123,000 net new positions in the private sector, the goods-producing sector accounted for one-third of that increase. Construction companies, automakers and farm equipment producers all added to their payrolls. Health care and education brought another third to March payrolls, with the rest spread out among sectors that included leisure and hospitality (an industry that, interestingly, has been adding workers all year) and retail.

Once again, demand for the temporary help increased in March, adding another 40,200 to payrolls. (By the way, these numbers solely reflect temp employment in the private sector and have nothing to do with the temp. hiring of census workers.) We've now seen six straight months where the number of temporary workers has risen. It's another strong signal that firms are seeing enough new business to justify adding such employment. That trend should give way to more permanent jobs in the coming months.

One of the more esoteric indicators we monitor in the employment report is hiring in the trucking industry. Freight truckers are a critical part of the economy's supply chain distribution system because they have to transport goods to retailers, manufacturers, railroads and ports. Typically, trucking companies are reluctant to hire new drivers permanently unless employers are absolutely certain the business is there to justify it. For nearly three years, they have been compelled to downsize, bringing the number of truckers in the US to 1.22 million, its lowest level in 16 years this past February. But now this industry is getting busier too. It hired 600 more truckers last month, a modest number, of course, but the change helps verify the economy's broad turnaround.

There were other encouraging factoids in the jobs report worth mentioning.

- The duration of unemployment stats were promising ---with one important caveat. The number of newly unemployed ---defined as those out of work less than five weeks ---fell another 102,000 to 2.65 million last month, the lowest number since April 2008. This group now represents just 17.8% of the unemployed, down from 25.2% a year ago. That decline confirms the trend seen with first time claims for jobless benefit, which shows that companies have dramatically cut back on layoffs in recent months.

Unfortunately, the number of Americans out of work 27 weeks and longer now make up 44.1% of those jobless, nearly double what it was a year ago. This is one of the most disturbing developments in the labor market. There are now 6.54 million Americans who have been jobless six months or more, the most ever and a massive 400% increase in just two years! What's so worrisome is that work skills deteriorate when one is out that long and that makes it far tougher to find employment again. The atrophying of skills means employers may find themselves competing for workers with up-to-date and knowledge.

- There were a few other disappointing statistics to come out of the March report. Some were downright puzzling. Average hourly earnings dropped 0.1% last month after climbing 0.2% in February. One head-scratcher was the increase in the number of people forced to accept part time work because they couldn't locate suitable full time employment. The number of part timers in this category rose to 9.05 million, which is even more than what it was a year ago (9.02 million). One possible explanation is that part-timers lost some of the critical skills employers were looking for. (For example, a lawyer who lost his job working for a Wall Street securities firm and ended up driving a cab part time for nine months may have a harder time returning to his original vocation.)
- Still, the March jobs report possesses a lot of positive news on job front. More Americans were at work in March than any time in the last 7 months. The household survey showed 138.9 million Americans were employed, the most since last August. The employment – population ratio, which is the percentage of people employed in the population rose to 58.6, the most since last September.

One very positive trend can be found in the latest diffusion indexes. The diffusion index, in short, reflects the percentage of firms that have been hiring in the last 30 days. An index number above 50 indicates that more firms were expanding their workforce than cutting it. (Thus, a number below 50 means more reduced their staff than added.) After surveying 269 private industries, the index soared to 60 in March, up from 50 in February --- and just 16.5 a year ago!! Even more dramatic numbers can be found among manufacturers. After examining 82 manufacturing industries, the index climbed to 58.5, up from 54.3 in February --- and a miniscule 9.1 (yes! 9.1) from a year ago.

### **Bottom line:**

We've waited for a long time for a report that shows companies are back in a hiring mood again. After two years of unrelenting bad employment news, we finally got some good news with the March report. Though the actual numbers were still on the soft side, our expectation is that with each successive economic report showing the recovery is genuine, employers will post more job wanted ads.

The March employment numbers should have no effect on monetary policy when the Federal Reserve convenes later this month. To justify any change in wording in the FOMC statement, the Fed will want to see several more months of sustained and even larger job growth numbers. If that occurs, we can expect them to remove the "extended period" phrase on keeping interest rates low by either June or August, with actual rate increases commencing in the fall.