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ECONOMIC TALKING POINTS

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What To *Really* Take Away from the March Jobs Report

One of the most common mistakes made following the release of a disappointing economic indicator is the failure to make a distinction between the bitter reaction of Wall Street traders, who may in the aftermath have to nurse their investment wounds, and what the data *really* tells us about the economy.

Traders take positions in the days and even minutes before an economic report is released, and place their chips based on their best expectations on what the actual numbers will be once the report is put out. With respect to the jobs report, if the official headline figures on payrolls and the unemployment rate sharply depart from expectations, as was the case for March, brace yourself for a frothy debate on what went wrong and whether conditions in the economy are far worse than anyone thought.

Missing from all this, however, is a more careful read of what the report actually tells us about the state of the economy and whether it affirms or questions the efficacy of current economic policy.

So let's examine the March Jobs report in that context.

The 88,000 increase in nonfarm payrolls was a clear disappointment, as was the 95,000 in net private sector hiring. While the jobless rate did slip to 7.6%, it was largely the result of 496,000 people departing the civilian labor force, which greatly exceeded the decline in the number of those employed (down 206,000). The labor force participation rate thus fell again to 63.3%, the lowest since 1979.

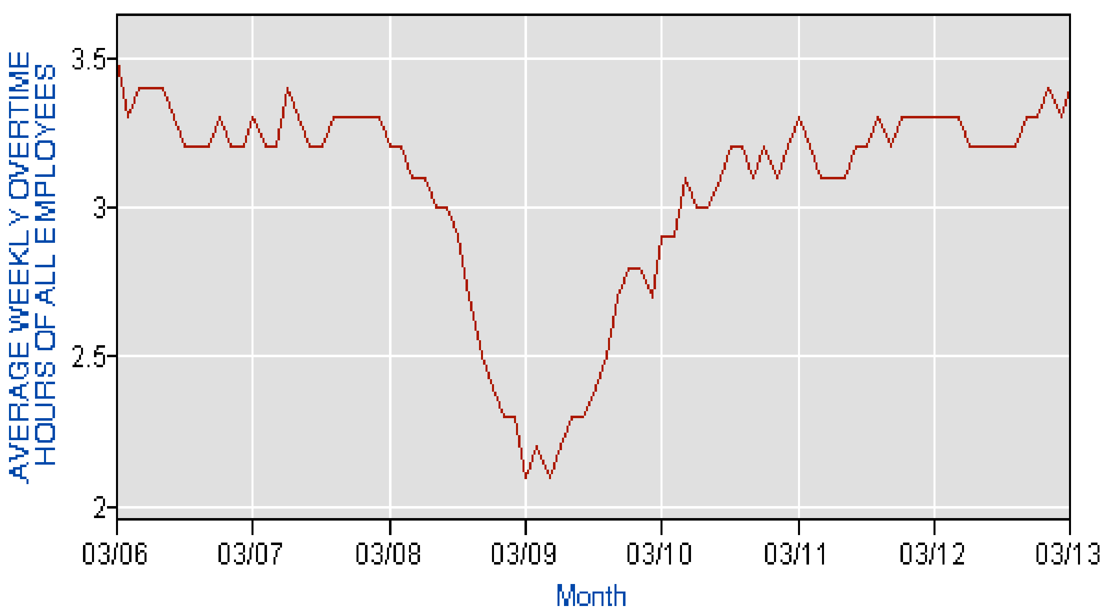
OK, we get all that. The preliminary headline stats were dismal. But let's also balance this assessment with other important data points in the same report that should temper our concerns about the economy. We're going to list some of these below:

- Do not pass over the revisions of previous months. They are meant to provide a more accurate picture than the preliminary release of what is going in the job market The March report contained upward revisions for January and February and lifted payrolls by another 61,000. It is probable the March numbers will be higher as well. Over the last 14 months, the BLS has been forced to revise up the initial payroll numbers in nine of them.

- The average workweek, an important barometer of economic activity and future labor demand, rose to 34.6 hours in March, the most in more than a year! That's encouraging.

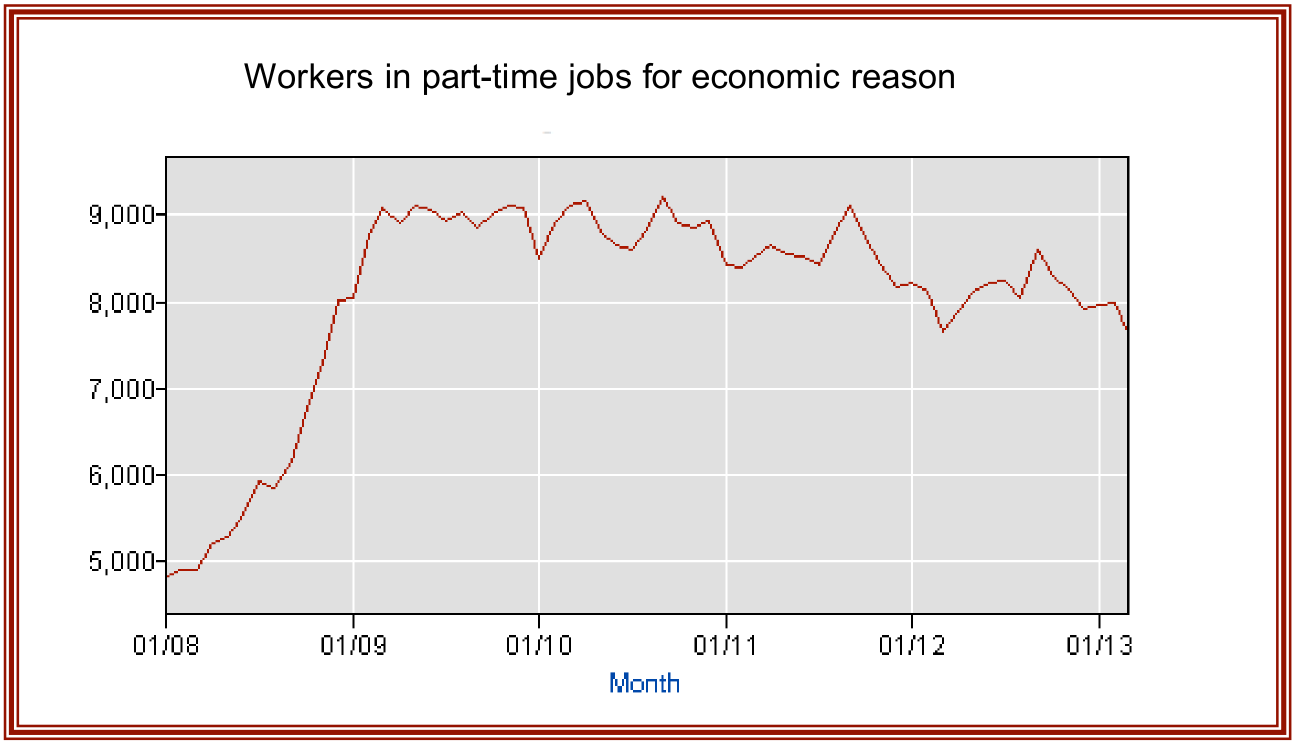
- Overtime at manufacturers, another leading indicator of employment, increased to 3.4 hours a week. That was higher than February and matched that of January's. What is interesting is that the 3.4 hours of OT in January and March were the most since 2006! Another good sign.

Average weekly overtime, manufacturing.



Source: BLS

•   What about those stuck with part time work because of the lack of full time employment? Here, too, we get some encouraging numbers. Part time work for economic reasons fell to 7.63 million, the lowest in nearly five years!



Source: BLS

•   Another stat on labor market trends worth monitoring is the number of workers who have been unemployed for less than five weeks. It tells us if the pace of firings have recently increased, remained the same, or slowed. The March report notes that this number has dropped to 2.46 million, a two-year low. What of those on the other extreme, people who have been out of work 27 weeks or longer? It dropped to 4.61 million, close to a four year low.

• Look at some of the hiring underway in some key industries and you see the dynamics in the labor market are still strong.

---- Employment in the construction sector jumped 18,000 last month. Builders have been adding workers each month since last June, with the total number of employed rising to the highest since August 2009. Both residential and commercial construction will make solid contributions to economic growth this year.

---- We have also been tracking employment in the leisure and hospitality sector, largely because new hotel construction has been static for years. If this industry is actively hiring, it is another sign of how leisure and business travel has rebounded. That is, in fact, what the data now shows. Employment in L&H jumped another 17,000 in March and is now at a record high 13.96 million.

---- Another indicator of note is employment in day care centers. If both parents of young children are able to find work, day care centers will get busier. Since most states have laws that require a certain ratio of caregivers to children, a rise in the latter will eventually lead to more hiring of the former. March represented the fourth consecutive month day care centers have augmented their staff.

---- Finally, let's not ignore the obvious significance of beefing up staff at employment agencies. It rose another 15,200 last month, lifting the total for this sector group to 3.27 million, the most since May 2008.

Bottom line:

Look, we do not mean to sugar coat the March employment report, only to put it in perspective. Yes, the aggregate March payroll numbers came in way below most expectations. We, too, were caught off guard. Our argument is that this report should not darken our impression on the health of the US economy. It is a single employment report, conducted in a month when there were widespread concerns how the sequester-induced spending cuts would affect growth.

By now there is growing confidence there is life after the sequester. This doesn't mean the spending cuts will be harmless. Depending on how long it lasts, it can deduct as much as 50 basis points off GDP growth this year, lowering it from 3.2% to 2.7% But worries about a budget crisis doing considerably more damage has begun to diminish. Consumer and business optimism continue to hold up quite well and this is reflected in the strength of household spending and corporate investments. In addition, US exports are getting stronger. The government reported this morning the US trade deficit narrowed in February, in part because exports are now closing in on the record set in December. Given all these trends, it would be a mistake to be fixated on the depressed March payroll numbers.

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