Economic Analysis

Job Growth and Slack Indicators Weaken in March

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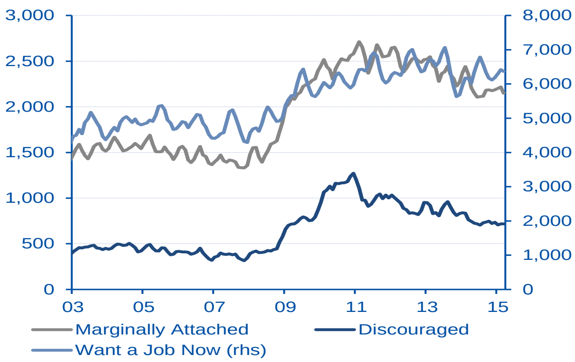
- **Nonfarm payrolls increased only 126K in March, but the unemployment rate held at 5.5%**
- **An increase in discouraged and part-time workers highlights the slack in the labor market**
- **Slowdown in job growth supports our expectations for a Fed rate hike in September**

Total nonfarm payrolls surprised to the downside in March, falling below the 200K-per-month mark for the first time since February of last year and posting the weakest gain since December 2013. At a mere 126K, total nonfarm payrolls were hit by weakness in many sectors including mining and logging (-11K), construction (-1K), manufacturing (-1K), and government (-3K). Payrolls for January and February were also revised down by a combined 69K. We are finally seeing the adjustment that we had been expecting for the past few months, though this is a bit more than we were asking for. Other indicators for the first quarter have hinted at a big slowdown, so it was just a matter of time before the employment reports caught up with this story. This weakness certainly reflects a weather-related impact to activity across the country, most noticeable in the slowdown in housing activity and construction employment. However, there are other factors at play, including a stronger dollar that is hurting exports and ultimately dragging down manufacturing activity.

The labor market had been the shining star of the economy throughout the past year, so March’s data are definitely going to dampen spirits as we move into the second quarter. Other measures of labor utilization suggest that there is still slack left in the labor market, despite the fact that the unemployment rate has moved much closer to its long-run rate over the past few months. The unemployment rate held steady at 5.5% in March despite the fact that the participation rate declined, suggesting that the latest job gains have been enough to offset the drop in the labor force. However, the data suggest an increase in the number of individuals employed part time for economic reasons, especially those who took part-time jobs due to slack work or business conditions. Furthermore, the number of discouraged workers increased for the second consecutive month. The alternative unemployment rates that measure these components remain higher than the official rate. The U-6 unemployment rate still sits at 10.9%, though this is the lowest since August 2008.

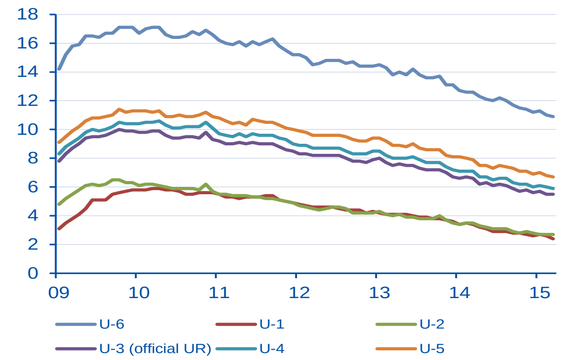
March’s employment report may just be a tiny hiccup in an otherwise strengthening labor market, and for now we are taking the data with a grain of salt. However, it wouldn’t be too surprising if we see another few months of relatively weak job gains as we shake off the 1Q15 weather impact and slowdown in global demand. This supports our expectations for the Fed to hold off on the first rate hike until September, although consistent deceleration in job growth and/or an upward shift in the unemployment rate could push the timing further out to December. If anything, this employment report implies that the probability for a June rate hike has declined.

Chart 1
Reasons for Not in the Labor Force (NSA, K)



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Alternative Measures of Unemployment (%)



Source: Bureau of Labor Statistics & BBVA Research

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