

## Flash Note

# United States: Employment report

### Job creation slows but unemployment drops to a new record low

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Non-farm payrolls increased by 98,000 m-o-m in March, well below consensus expectations (180,000). Adverse weather conditions likely weighed on the aggregate numbers. Moreover, job creation averaged 177,000 in Q1 2017, above the Q4 average of 147,000.

Importantly, the US unemployment rate fell to a new cycle low of 4.5% in March, from 4.7% in February. The U6 measure of underemployment dropped to 8.9%, from 9.2%. Wage growth was in line with expectations, up 0.2% m-o-m and 2.7% y-o-y in March.

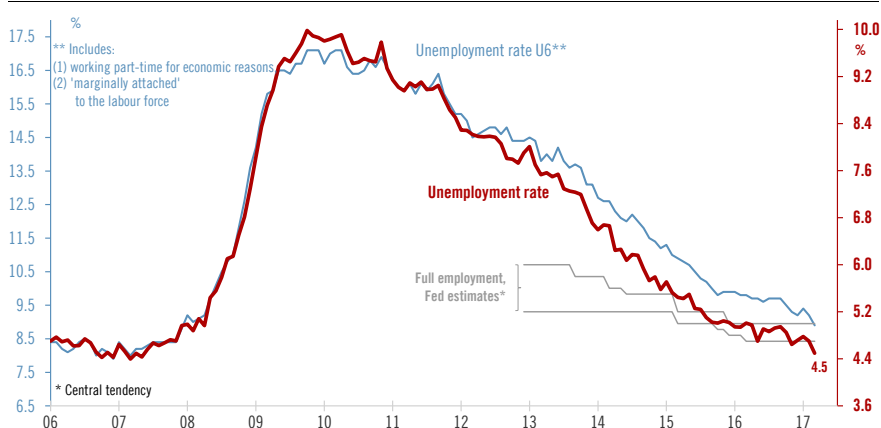
Overall, we suspect that today's jobs report will not lead to a material reassessment of the economic outlook by the Fed. Barring a sharper slowdown in job creation or the economy, the main driver for monetary policy in the next few months is likely to be the prospects of fiscal stimulus, or lack thereof.

The March jobs report disappointed, at least in terms of headline numbers as non-farm payrolls rose by 98,000, well below consensus expectations of 180,000, while net revisions subtracted 38,000 jobs in the previous two months. **Job creation averaged a strong 177,000 in Q1, after 147,000 in Q4 2016.** Hourly wages were in line with expectations, up by 0.2% m-o-m in March and down to 2.7% y-o-y (from 2.8% y-o-y in February). Importantly though, unemployment declined to a new cycle low in March, with the **U3 rate down to 4.5%** (from 4.7%) and the broader U6 underemployment rate down to 8.9% (from 9.2%). Participation rate was stable at 63%.

Overall, we suspect that today's jobs report will not lead to a material reassessment of the economic outlook by the Fed. One month of data doesn't make a trend. Adverse weather conditions likely weighed on the aggregate numbers and a rebound will be expected next month. The broader set of indicators that the Fed is monitoring remains largely positive and the minutes of the March FOMC minutes noted that labour market conditions "strengthened further" in January and February.

The key question is the remaining level of slack in the economy. From that perspective, the decline in the unemployment rate might be a bit puzzling. Still, most FOMC members probably expected a slowdown in job creation anyway as the economy hovers around full employment. In all, barring a sharper slowdown in job creation and the economy, the main driver for monetary policy in the next few months is likely to be fiscal policy.

**Chart 1: US different measures of labour underutilisation**



Source: Pictet WM - AA&MR, Thomson Reuters

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Here are the details to be highlighted in this March jobs report:

- January nonfarm payroll employment was revised downwards from +238,000 to +216,000 while February gains were revised from +235,000 to +219,000. Taking into account the revisions, **employment gains in January and February combined were 38,000 lower** than previously reported.
- In all, **non-farm payrolls expanded by 98,000** in March, below consensus expectations (+180,000). **Job creation averaged a strong 177,000 in Q1, after 147,000 in Q4 2016.** Over the month, employment growth was stronger in professional and business services (+56,000), education and health services (+16,000) and in mining (+11,000), while retail trade lost jobs (-30,000). Construction employment was little changed (+6,000), following a massive gain in February.
- **Average hourly earnings rose by 0.2% m-o-m in March**, in line with expectations (0.2%). On a year-on-year basis, wage growth dipped marginally to 2.7% y-o-y from 2.8% y-o-y, partly dented by temporary effects. By sectors, financial services, construction (-0.4% m-o-m), transportation (-0.4% m-o-m) and manufacturing (-0.4% m-o-m) weighed on the aggregate index whereas wages in mining (+2.7% m-o-m), professional and business services (+0.3% m-o-m) and utilities (+0.8% m-o-m) increased more markedly. Overall, we continue to expect the ongoing reduction in labour market slack to push wage growth gradually higher over the coming quarters.
- The **average work week remained unchanged at 34.3 hours** in March.
- Based on the household survey, the **unemployment rate fell by 0.2 percentage point (pp) to 4.5% in March**, its lowest level since May 2007, and below the Fed median estimate for full-employment (4.8%). The broader U6 underemployment rate was down to 8.9% (from 9.2%), hitting a nine-and-a-half year low. The participation rate was stable at 63.0%.

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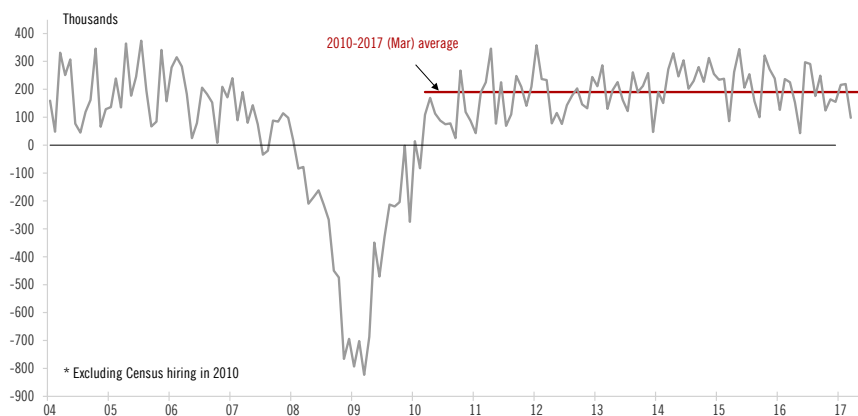
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**Chart 2: m-o-m changes in non-farm payroll employment (in thousands\*)**



Source: Pictet WM - AA&MR, Thomson Reuters