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ECONOMIC REPORT

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HIRING SOARS WITH STRONG JOB GROWTH IN MARCH; LABOR MARKET RECOVERY ACCELERATING

SUMMARY

- Employment increased by a better-than-expected 916,000 in March. This was the largest one-month increase in employment since August 2020.
- Employment remains more than 8.4 million below its pre-recession peak.
- The unemployment rate fell to 6.0% in March, from 6.2% in February. Although it is down from almost 15% in April 2020, it is far above the pre-recession rate of 3.5%.
- Job growth will be very strong through the rest of 2021 and into 2022 thanks to stimulus and vaccines.

Employment rose by 916,000 in March, based on a Bureau of Labor Statistics survey of firms. This was the largest one-month increase in employment since August 2020. It was also well above the consensus estimate for job growth of 630,000. Private-sector employment rose by 780,000 over the month, while government employment increased by 136,000. There were also net upward revisions to job growth in January and February of 156,000. Job growth in February was revised higher to 468,000 from 379,000, while January job growth was revised higher to 233,000 from 166,000. Job growth has accelerated sharply over the past few months. Job growth averaged 539,000 in the three months through March, up from just 64,000 in the three months through January 2021.

Employment fell by almost 22.4 million in March and April of 2020 combined as consumer stayed home, states imposed restrictions on economic activity, and businesses closed. Job growth resumed in May, and was very strong for a few months as businesses reopened and consumers started to venture out again. Job growth averaged more than 2 million per month between May and October 2020. Job growth then slowed dramatically in late 2020 and early 2021 as coronavirus cases started to climb and states reimposed restrictions, but has picked up over the past few months. As of March employment is down by 8.4 million, or 5.5%, from its pre-recession peak.

The unemployment rate fell to 6.0% in March from 6.2% in February. The unemployment rate, which was 3.5% in early 2020, before the pandemic came to the United States, jumped to 14.8% in April 2020 and has fallen steadily since then. However, unemployment is still much higher than it was before the pandemic.

Employment in a survey of households (different from the survey of firms) rose by 609,000 in March, the biggest increase since October 2020. The labor force increased by 347,000 as more people looked for work over the month with the improving job market. The labor force participation rate, the share of adults either working or looking for work, rose to 61.5% in March from 61.4% in February. However, it is still far below the 63.3% rate before the pandemic (see Chart 1). The U-6 rate, which includes unemployment and underemployment, as well as workers too discouraged to look for a job, fell to 10.7% in March from 11.1% in February. It peaked at 22.9% in April 2020, but was 7.0% in February 2020.

Employment growth in March was especially strong in goods-producing industries, which added 183,000 jobs over the month. Construction employment increased by 110,000 thanks to very strong homebuilding and reconstruction following winter storms in much of the country. Manufacturing employment rose by 53,000 in March. Private services-providing industries added 597,000 jobs over the month. There was an enormous increase of 280,000 in leisure/hospitality services, following an even larger gain of 384,000 in February, as restaurants and hotels are reopening and rehiring. But employment in the industry is still down by more than 3 million, or 19%, since the pandemic began (see Chart 2). There were also increases of 101,000 in education/health services and 66,000 in professional/business services. Most of the

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increase in government employment came in education, as colleges and schools returned to in-person instruction.

The average workweek jumped to 34.9 hours in March, from 34.6 hours in February, even as employment surged in leisure/hospitality services, which depends more on part-time workers.

Average hourly earnings fell 0.1% over the month as employment rose in lower-wage industries, like leisure/hospitality services. But with a big increase in jobs and a large increase in the average workweek, total labor market earnings rose a very strong 0.7% over the month. This will outpace expected inflation in March of 0.5%; the BLS will release the consumer price index for March on April 13. Personal income will jump in March, but much more of the increase will come from stimulus payments sent to many households.

After much weaker job growth in late 2020 and early 2021, the U.S. labor market is quickly heating up. Consumer spending is surging due to stimulus payments in January, even bigger payments in March, and accelerating vaccinations. Job growth will be especially strong in service industries catering to consumers in-person, such as restaurants and travel and tourism. Homebuilding will remain very strong throughout 2021 thanks to extremely low mortgage rates and very strong demand for single-family homes. And business investment is quickly picking up as the overall economy soars.

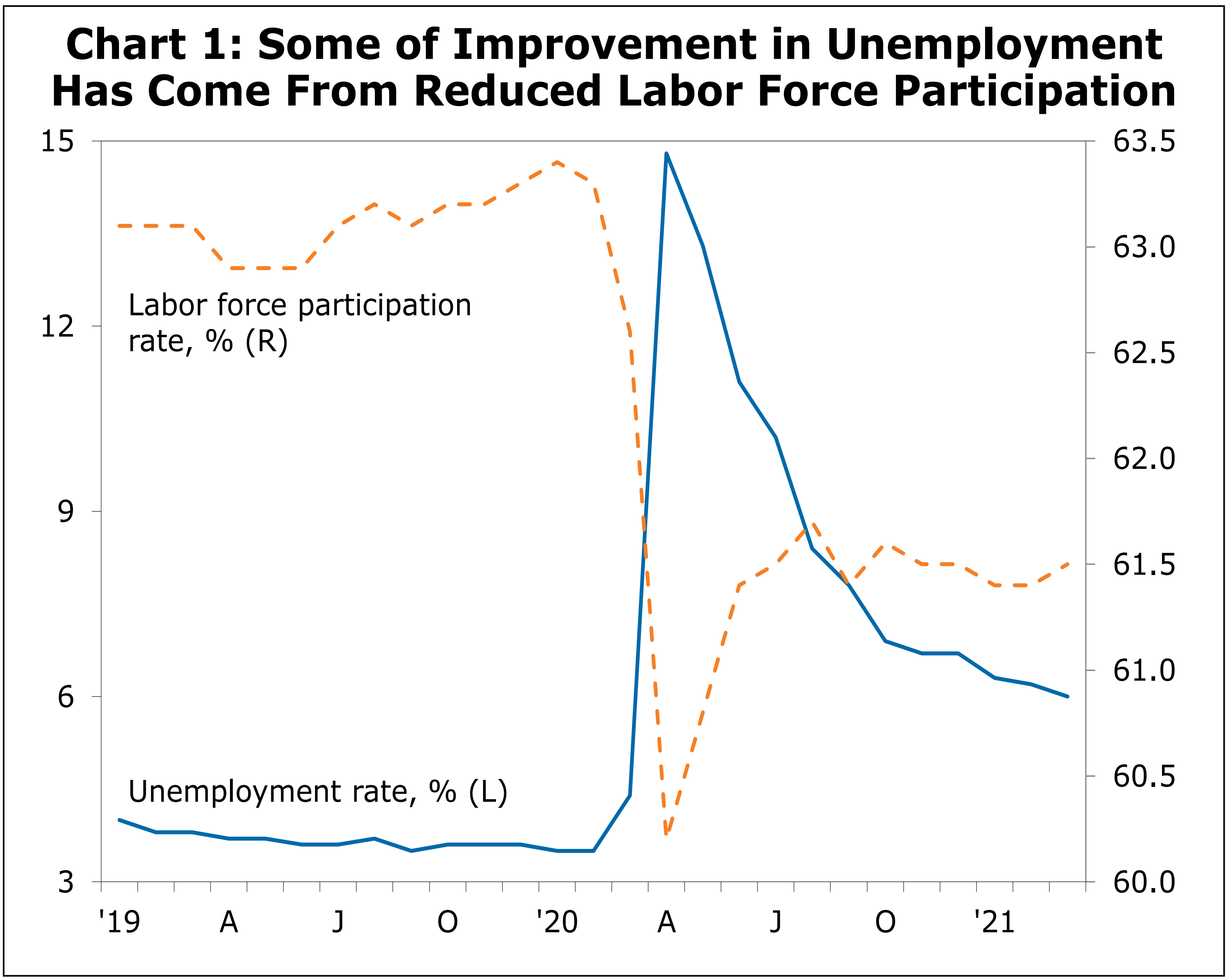

Chart source: Bureau of Labor Statistics

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As of March, PNC is forecasting job growth of better than 600,000 per month on average through the rest of this year, and the April forecast will be even stronger; nonfarm employment will end this year around 2% below its pre-pandemic level, and exceed its pre-pandemic level by the second half of 2022. The unemployment rate will fall to around 5% at the end of this year and around 4% at the end of 2022.

Market reaction to the very strong jobs report was positive. The stock market was closed on the day of the jobs report for Good Friday, but jumped 1.4% on Monday, April 5, to a record high. The yield on the 10-year Treasury note rose slightly after the release of the jobs report, but has since moved back below 1.7%. Short-term Treasury bill yields remain near zero as the Federal Open Market Committee remains committed to keeping the fed funds rate in its current near-zero range for at least a couple of years.

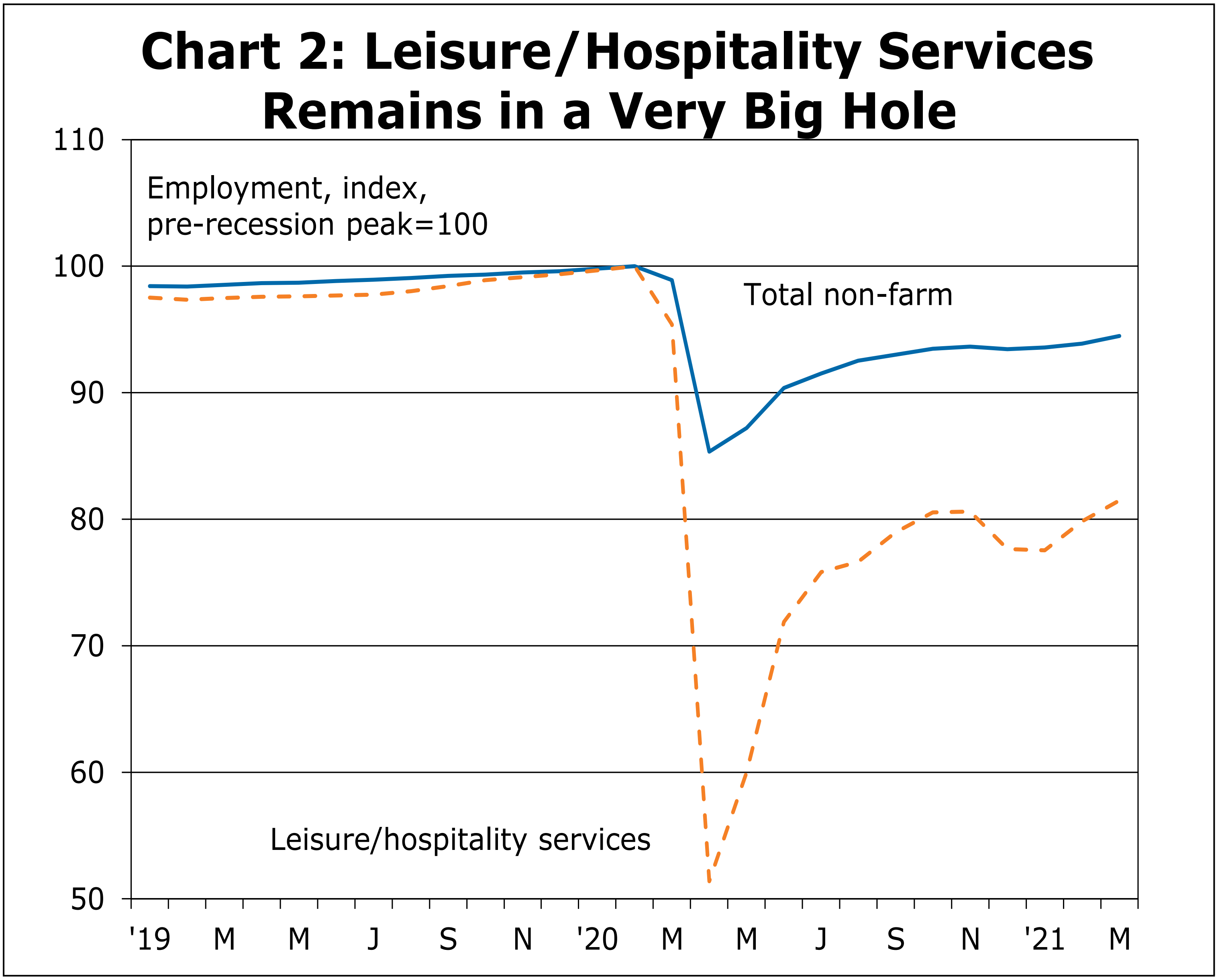

Chart source: Bureau of Labor Statistics

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