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# ECONOMIC REPORT

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## JOB GROWTH DISAPPOINTS IN MARCH, BUT 2017 RUNNING AT SAME PACE AS 2016; UNEMPLOYMENT AT 10-YEAR LOW

### SUMMARY

- The U.S. economy added 98,000 jobs in March, far below expectations. The weather and other one-time factors contributed to the weak top-line number.
- Job growth this year is running at close to last year's pace.
- The unemployment rate fell to 4.5 percent, the lowest in almost a decade. Details in the household survey numbers were good.
- Average hourly earnings rose 0.2 percent in March, and were up 2.7 percent from one year earlier.
- The U.S. labor market is approaching full employment.

Payroll employment rose by just 98,000 in March, well below the market consensus of 180,000 and PNC's forecast of 160,000. March private-sector employment growth was 89,000, far below the ADP figure of 263,000. There was a downward revision to job growth in February to 219,000 (from 238,000) and in January to 216,000 (from 238,000), for a net downward revision of 38,000.

The unemployment rate fell to 4.5 percent in March from 4.7 percent in February; this was the lowest unemployment rate since May 2007 (see Chart 1). The number of people who reported having jobs in the household survey (different from the survey of employers) rose by a large 472,000 in March, after a big 447,000 increase in February. The labor force rose by a smaller but still substantial 145,000 in March. The labor force participation rate held steady at 63.0 percent, well below its pre-recession level. The number of unemployed fell by 326,000 in March, after a drop of 107,000 in February.

The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) fell to 8.9 percent in March from 9.2 percent in February and 9.4 percent in January, and is at its lowest since the beginning of 2008.

Most industries added jobs in March, but at a slower pace than in January and February. Mining employment rose for a fourth straight month as energy prices have stabilized, but it is still down by 224,000 (25 percent) from its peak in the fall of 2014. Construction job growth slowed to 6,000 in March, after gains of 59,000 in February and 34,000 in January; warmer-than-usual winter weather pushed building projects earlier into the year, and so this year's spring pickup in hiring is smaller than in years past. Manufacturing jobs rose by 11,000, the fourth straight increase. Private service-providing industries added 61,000 jobs in March, less than one-half of the February pace of 125,000. This included gains of 56,000 in professional/business services (including 11,000 in temporary services), up from 36,000 in February; 16,000 in education and healthcare, down from 66,000 in February; 9,000 in leisure/hospitality services; and 9,000 in financial activities. Retail trade employment fell by 30,000 in March after a drop of 31,000 in February; a number of large retailers closed stores early this year because of competition from online sales. Traditional retailers will remain under pressure from the technological changes transforming the industry. Employment was down 3,000 in information services. State and local government jobs were up by 10,000 in March and federal government jobs were down by 1,000.

With a tighter job market average hourly earnings rose 0.2 percent in March, and February wage growth was revised up to 0.3 percent, from 0.2 percent. Average hourly earnings were up 2.7 percent in March from one year earlier, down from 2.8 percent growth in February, but up from sub-2 percent growth a few years ago. The tighter labor market is slowly pushing

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With 98,000 new payroll workers and a flat average workweek, total hours worked rose 0.1 percent in March, and with moderate wage growth aggregate earnings were up 0.2 percent. The February CPI was likely up 0.2 percent (to be reported on April 14th), so workers' real income was likely flat for the month.

The March topline jobs number was disappointing, and job growth was well below expectations, especially after the very strong ADP report for March (see Chart 2). One-time factors—good weather earlier this year, the mid-March snowstorm on the East Coast, a late Easter, and big store closings—explain some of the weakness. But job growth for the first three months of 2017 has averaged 178,000, close

to the average last year of 187,000. And there were positives from the big increase in household employment, the drops in the unemployment rate and the U6 rate, and the increase in average wages.

The labor market continues to improve, and is close to full employment. Most people who want a job can find one. Job growth is running well ahead of what is needed to keep up with labor force growth. There is some residual unemployment, but more and more of that is a structural mismatch between the skills that the unemployed have and the skills that businesses are looking for. Job market slack continues to diminish, which will push wages higher throughout 2017, in turn supporting household incomes and spending.

### Chart 1: Unemployment Rate Down to Pre-Recession Level, U6 Is Almost There

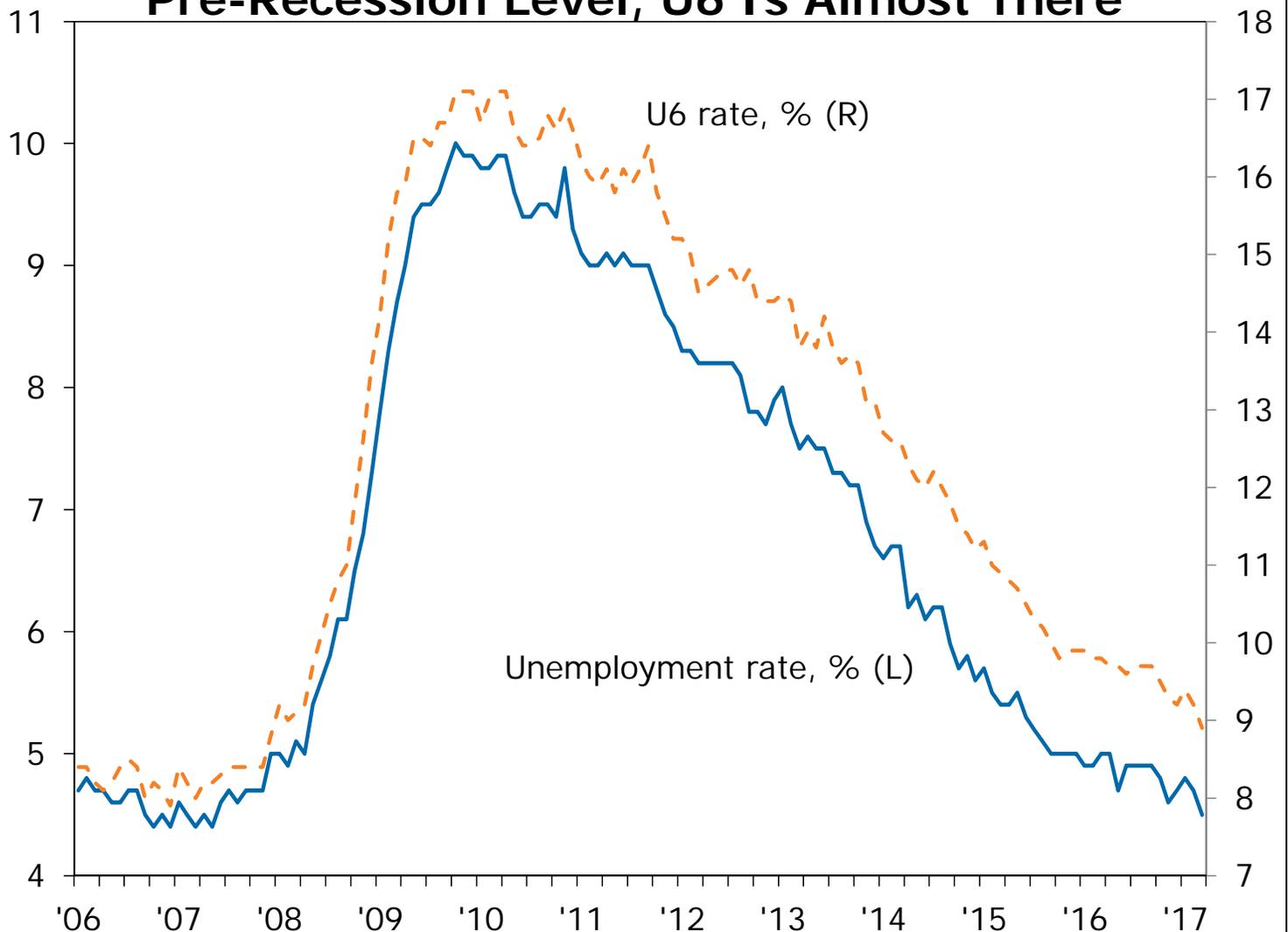


Chart source: Bureau of Labor Statistics

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The Federal Open Market Committee is likely to regard the weak March number as an aberration. The next increase in the federal funds rate will come in June, when the FOMC will push the rate up by a quarter of a percentage point to a range of 1.00 to 1.25 percent. There will also be another fed funds rate increase later in the year, perhaps in December.

Stock prices barely budged on the day, although the jobs

report was overshadowed by the U.S. airstrikes in Syria. Both short-term and long-term Treasury rates moved slightly higher, with the yield on the 3-month Treasury bill at 0.82 percent, and the yield on the 10-year Treasury bond at 2.38 percent. The price of a barrel of West Texas Intermediate crude oil rose by about 1 percent to above \$52 because of geopolitical concerns. The U.S. dollar strengthened slightly on the day against most currencies, especially the euro, the pound, and the yen.

### Chart 2: Three Wildly Different Readings on March Job Growth

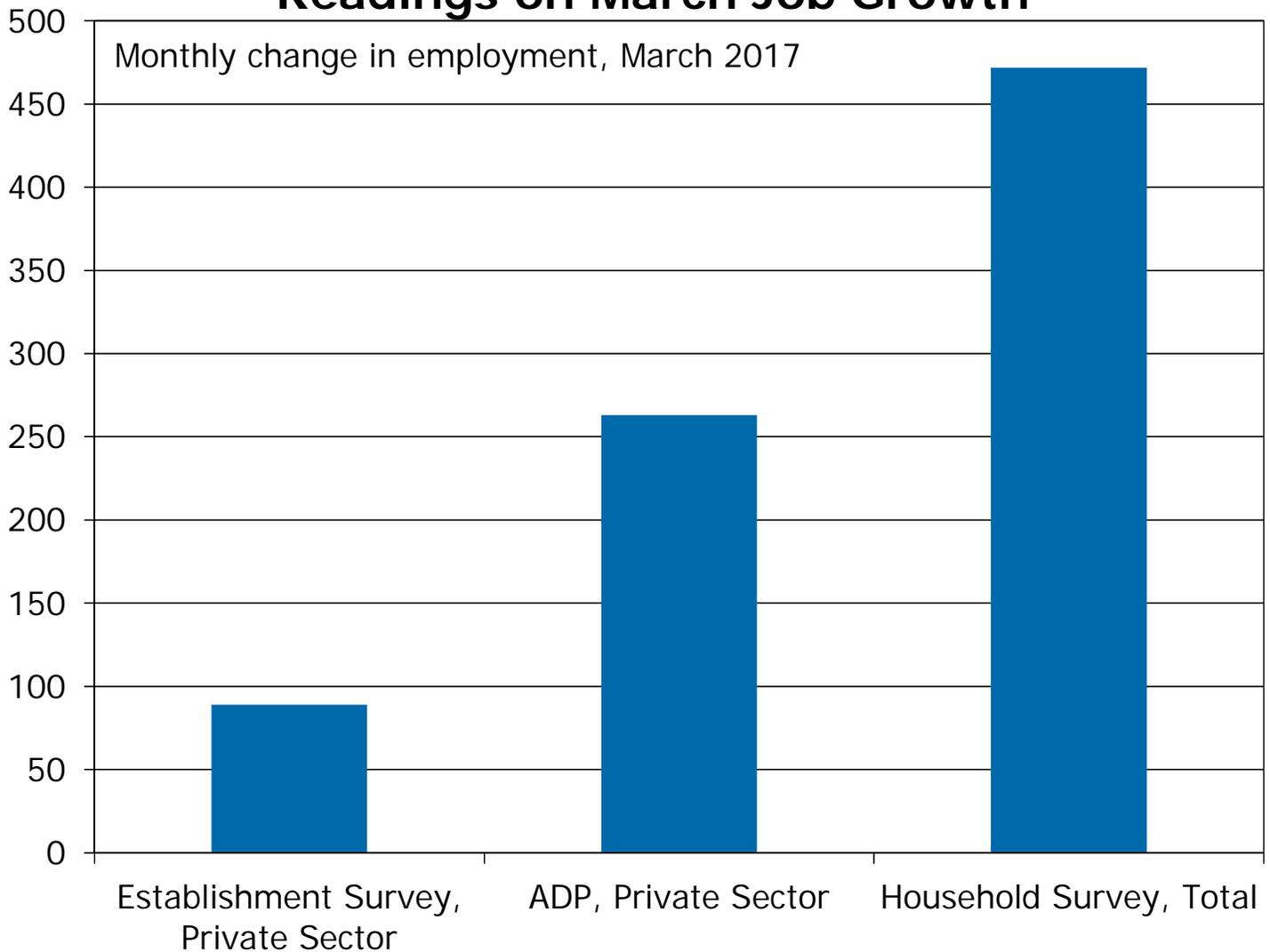


Chart sources: Bureau of Labor Statistics, ADP

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