

## Economics

6 April 2012 | 7 pages

# U.S. Macro Flash

## Mar. Non-Farm Jobs +120K; ATTN: Monthly Volatility is the Norm

- Non-farm employment rose 120,000 in March after a three-month gain averaging 246,000 that we believe overshot fundamental trends.
- The unemployment rate dropped to 8.2% from 8.3% on a small drop in employment and a larger drop in the labor force of 164,000. But this reflected a 984,000 jump measured in the prior two months which was nearly equivalent to a full year's trend gain.
- While manufacturing employment gains were again solid in March, up 37,000, construction employment and other seasonally sensitive areas showed outright declines. This is indicative of seasonal distortions that "pulled forward" gains into the early winter months and evident in numerous other statistics including hours data.
- Observers should understand that preliminary monthly changes in employment vary *on average* by 117,000 per month and quickly forget such volatility after readings such as the past three months, which varied by no more than 43,000 (counting initial readings).
- There was no reason to extrapolate the strongest employment readings at the turn of the year in our view. The revised 153,000 average monthly pace for employment in 2011 came with four monthly readings below 60,000 with one as low as "zero." We *would not* adjust our full year 2012 estimates for employment gains near 175,000 as a result of today's data.

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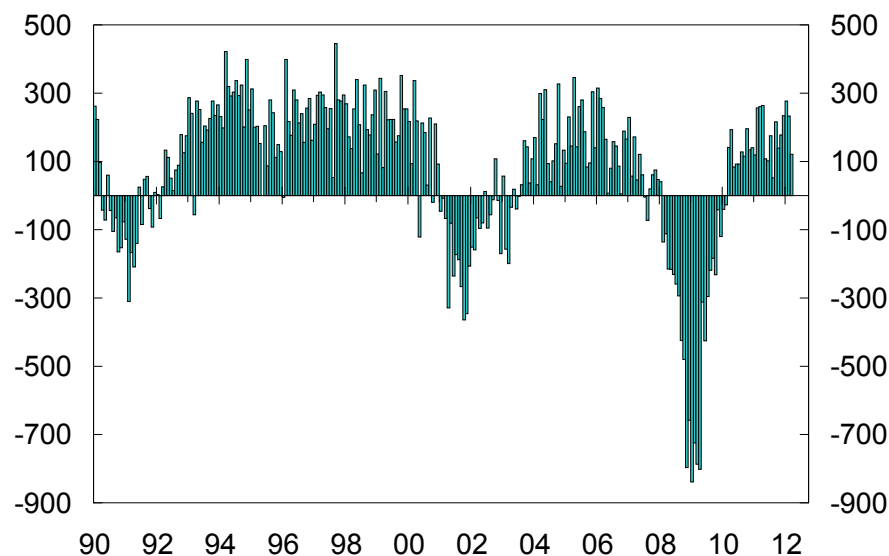
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## Regression to Trend

Non-farm employment rose 120,000 in March, well below expectations after a surge averaging 246,000 in the prior three months (net revisions were a modest +4,000). Private payrolls rose by 121,000 after gains averaging 248,000 (see figure 1).

Figure 1. Change in Private Employment (thousands)



Source: BLS

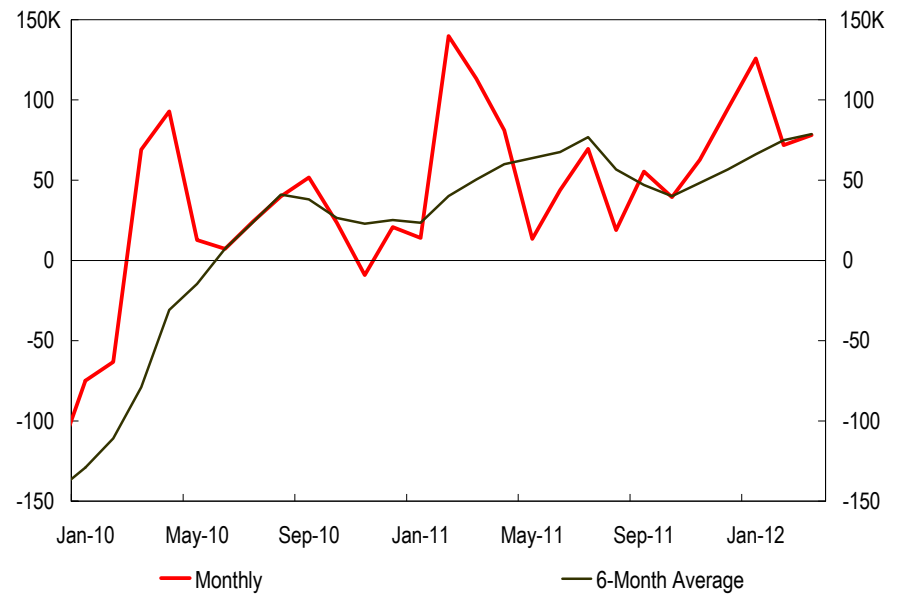
Weakness is evident in numerous March statistics in today's report, including hours data after stronger early-quarter readings. Even the 0.1 percentage point decline in the unemployment rate was driven by a small drop in the labor force after a two month surge. But we believe the near entirety of any variation from February readings was a result of the unusual weather patterns in recent months and difficulty transitioning from winter to spring seasonal adjustment. (*When winter feels like spring, watch out for spring.*)

As we noted with yesterday's ADP private payroll report which is historically less subject to weather-related distortions, gains in the *official* private employment survey had cumulatively risen 161,000 more than ADP had reported. The ADP data, in contrast to today's BLS report, showed a nearly steady 226,000 gain in private employment in March, unchanged from the prior three month average.

It is difficult to isolate areas within employment that can be influenced by a "lack of the usual bad weather." But a pulling forward effect was evident in the 112,000 rise in construction, real estate, leisure and related positions – *above an already improving trend* - in the three months through January (see figure 2). We would not assume weather-related distortions have been fully cleared from the data with today's report.

At the same time, we would not alter our estimate that payroll gains will probably average near 175,000 in 2012, just above the 153,000 revised average gain last year. It should be remembered that monthly employment data are volatile. Even in the improving trend of 2011, four initial reports showed gains below 60,000, with one report showing a "zero" change. There was no reason to extrapolate the zero forward. Today, only those who saw recent employment data as a new strengthening trend should need to adjust their assumptions.

Figure 2. "Weather Sensitive" Employment Change (thousands) and 6-Month Trend



Source: BLS Note: includes goods producing industries, leisure and hospitality, real estate and other services.

## Appendix A-1

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