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March Jobs Report Crushes Forecasts

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Most economists expected hiring to accelerate sharply in future months. *Apparently, the future is now.* The Bureau of Labor Statistics (BLS) reported U.S. businesses added a whopping 916,000 jobs to non-farm payrolls in March, well above the 660k Bloomberg median forecast, while upward revisions to the January and February payroll tallies added another 156k. At this point, 14 million jobs have returned to company payrolls; now 8.4 million short of the pre-pandemic peak in February 2020.

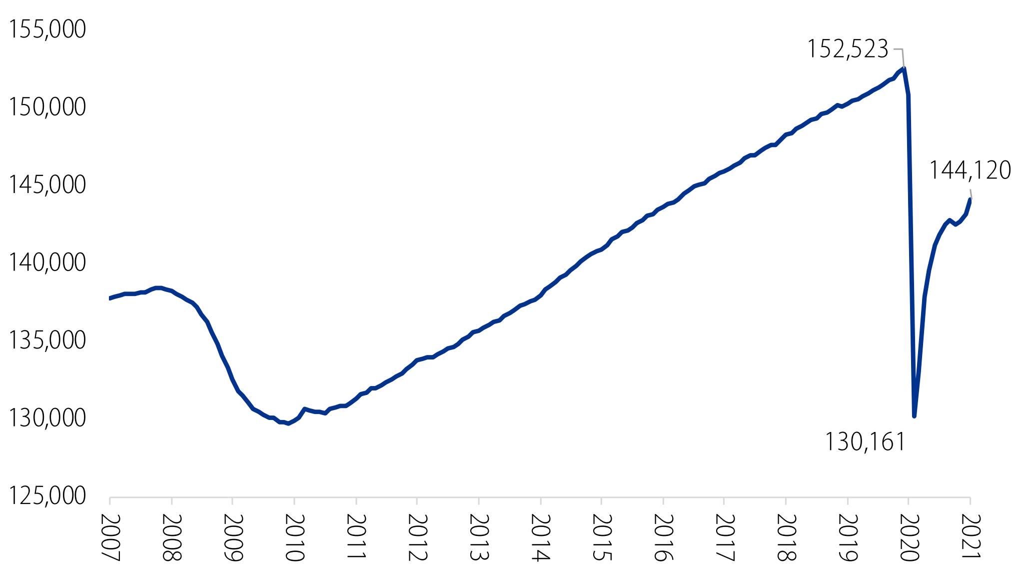
March gains were concentrated in leisure and hospitality (+280k) as many states eased capacity restrictions on restaurants and bars. According to BLS data, leisure and hospitality employment is still down 3.1 million, or 18.5% from February of last year. The reopening of schools in many parts of the country contributed a total of 190k combined public, private and state education jobs, although education employment is still down nearly 1.2 million from last year's peak. With the weather warming, construction jobs returned in mass (+110k), and are now just 182k below last year's high point.

The unemployment rate dropped from 6.2% to 6.0%, as expected. This is well below the 14.8% peak from last April, but remains above the 3.5% five-decade low from 13 months ago. There are still millions of Americans not looking for work, and as a result not officially counted among the unemployed. The number of Americans outside the labor force, but still wanting a job, totaled 6.9 million in March, 1.8 million above the February 2020 count.

The bottom line is a very strong labor report across the board, reflecting an economy emboldened by stellar vaccine progress and fueled by another round of massive government support.

Total Nonfarm Payrolls (in thousands)

From peak to trough, the pandemic resulted in the loss of 22 million jobs. Through March, the economy has now recovered 14 million of those jobs. After a winter plateau the pace is accelerating.



Source: Bureau of Labor Statistics.

The underlying data suggests job gains are likely to further increase in the coming months.

Average hourly earnings actually fell -0.1% in March, dragging the year-over-year earnings increase down from +5.2% to +4.2%. *This drop is consistent with the return of lower earning service workers.*

Bond yields are drifting higher across the curve as investors part company with the Fed's narrative.

This morning's report included quite a bit of information indicating a transition toward normality:

- The number of Americans unable to work because their employer closed or lost business due to the pandemic, dropped from 13.3 to 11.4 million.
- The percentage working from home fell from 22.7% to 21%, as businesses gradually began welcoming employees back to the office.
- The average workweek increased from 34.6 to 34.9 hours. *Increases in hours worked signal future hiring.*
- The manufacturing workweek climbed from 40.3 to 40.5 hours, consistent with the reported increase in factory activity.
- The number of temporary jobs on company payrolls fell by 1k as confident businesses increasingly shifted toward permanent hires.

The bottom line is a *very strong labor report across the board*, reflecting an economy emboldened by stellar vaccine progress and fueled by another round of massive government support. The underlying data suggests job gains are likely to further increase in the coming months. With many sidelined service employees still receiving more income than they'd earned while working, returning businesses may actually have trouble filling vacated positions.

Fed officials are focused on the labor market and have indicated they won't alter monetary policy based on forecasts. However, the *actual data* is arriving earlier than expected, and the labor market recovery is ahead of schedule. At the March FOMC meeting, Fed officials were content to maintain their overnight rate target at zero until early 2024. *Today's report doesn't fit that mindset.* Bond yields are drifting higher across the curve as investors part company with the Fed's narrative. The stock market is closed today for Good Friday, but futures are higher on the prospect of an economy poised to surge in the coming months.

Market Indications as of 10:20 A.M. Central Time

DOW	Unchanged at 33,153 (HIGH: 33,171)
NASDAQ	Unchanged at 13,480 (HIGH: 14,095)
S&P 500	Unchanged at 4,020 (NEW HIGH)
1-Yr T-bill	current yield 0.06%; opening yield 0.05%
2-Yr T-note	current yield 0.19%; opening yield 0.16%
5-Yr T-note	current yield 0.97%; opening yield 0.92%
10-Yr T-note	current yield 1.71%; opening yield 1.68%
30-Yr T-bond	current yield 2.36%; opening yield 2.34%