

TRENDMACRO LIVE!

On the March Jobs Report

Friday, April 1, 2022

Donald Luskin

“Inclusive maximum employment” with 1.5 million who could come back into the labor force.

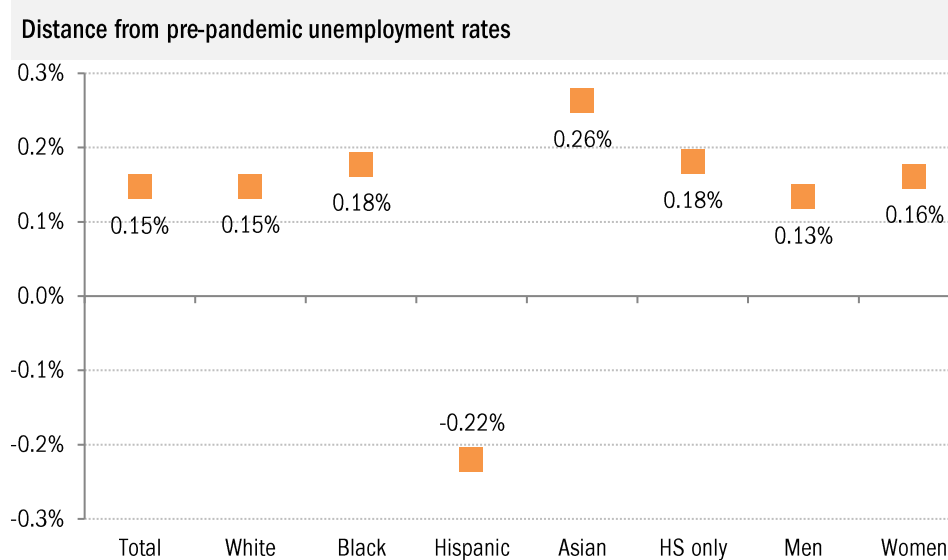
[This morning's March Employment Situation report](#), is the first in the Ukraine crisis – and there's really no sign of adverse affects spilling over from geopolitical risk and its associated economic stresses. To be sure, 431,000 net payrolls fell short of consensus expectations for 490,000. The miss is arguably offset by upward revisions of 72,000 and 23,000 for the seemingly too-good-to-be true gains in February and January, respectively. For the third month in a row, payrolls are suspiciously stronger than our model's projection of 308,000, based on contemporaneous labor market statistics (see [“Data Insights: Jobs”](#) April 1, 2022).

- *We think this report was the opposite of a disappointment. The labor force expanded by 418,000 – reducing the drop-off from the pre-pandemic peak to a mere 148,000. But that's not to say that there are no more alienated workers who could come into the labor force to help deal with the supply-side bottlenecks that are fueling inflation statistics. It's been two years now since the pre-pandemic peak, and the population has grown – so we think there are still 1.6 million people who could join the labor force.*
- At the same time, the “household survey” once again showed more

Update to strategic view

US MACRO, FEDERAL RESERVE: 431,000 net payrolls missed versus consensus expectations for 490,000, offset by strong upward revisions to the prior two months. But the labor force expanded almost all the way back to its pre-pandemic level. Given population growth, there are almost 1.5 million people still outside the labor force who could enter it and work to solve supply-side bottlenecks. The unemployment rate fell to a new post-pandemic low, just 15 bp from its pre-pandemic level. That improvement is shared across all ethnic, educational-attainment and gender categories, pointing to the Fed's ideal of “inclusive maximum employment.”

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Source: BLS, TrendMacro calculations

employment gains than the “payroll survey,” 736,000 versus the headline 431,000. It also showed a drop in unemployment by 318,000. *Taken altogether, the unemployment rate fell to 3.62% -- a new post-pandemic low just 15 bp above the pre-pandemic benchmark* (please see the chart on the first page).

- Looking just at the unemployment rate (abstracting from the large number of workers entirely outside the labor force, and thus not counted as unemployed), it looks like “maximum employment.” Indeed it looks like the Fed’s ideal of “inclusive maximum employment,” with *no ethnic, educational-attainment or gender category even 10 bp worse than the headline rate* – indeed, the Hispanic unemployment rate is 22 bp better than its pre-pandemic benchmark (again, please see the chart on the first page).
- There’s more good stuff in “Data Insights: Jobs”...
- The “inflow rate” to employment – that is, the probability that an unemployed person can get a job within a single given month – is better than at any point in the long business cycle expansion before the pandemic.
- Total hours worked are within a hair’s breadth of their pre-pandemic highs – yet GDP, the total output of goods and services, is at a new high more than 3% above its pre-pandemic level. *This is perhaps the best single statistic showing the productivity-led post-pandemic boom is still very much intact* (see “Reflections on a Boom Year” December 29, 2021).

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Bottom line

431,000 net payrolls missed versus consensus expectations for 490,000, offset by strong upward revisions to the prior two months. But the labor force expanded almost all the way back to its pre-pandemic level. Given population growth, there are almost 1.5 million people still outside the labor force who could enter it and work to solve supply-side bottlenecks. The unemployment rate fell to a new post-pandemic low, just 15 bp from its pre-pandemic level. That improvement is shared across all ethnic, educational-attainment and gender categories, pointing to the Fed’s ideal of “inclusive maximum employment.” ▶