Employment report March 2024

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Beneath hot job growth, ongoing rebalancing

- Continued hot job growth will reinforce the Fed's cautious approach toward rate cuts as some Fed officials will likely see job growth as still too hot for comfort, but the details of the March jobs report offered welcome signs that labor demand and supply are better balanced, with the labor force participation rate rebounding and wage growth easing.
- The economy added 303,000 jobs in March, well above consensus expectations, while prior estimates of job growth in January and February were revised up by a cumulative 22,000 jobs. Job gains were broad-based, with the private sector adding 232,000 jobs and the government sector adding 71,000 jobs. Health care and leisure and hospitality drove the increase in the services sector while goods employment picked up on a large increase in construction payrolls.
- The unemployment rate fell back 0.1 percentage points (ppt) to 3.8% after reaching a two-year high in February, and it held below 4% for the 26th consecutive month. Encouragingly, the labor force participation rate rebounded 0.2ppt to 62.7% after holding steady for three consecutive months, and it is now just a tad below its post-pandemic high of 62.8%. Stronger labor supply is encouraging, as it acts as a relief valve against elevated wage pressures.
- Following some volatility at the start of the year, wage pressures resumed their moderate pace with hourly earnings growing 0.3% month over month (m/m) in March. Thanks in part to favorable base effects, wage growth moderated 0.2ppt to 4.1% year over year (y/y). As labor demand and supply continue to rebalance, we see wage growth easing further and gradually converging toward 3.5% this year — a pace roughly consistent with the Fed's 2% inflation target.
- Moderating wage growth, along with slower demand for goods and services, easing rent inflation, and reduced pricing power, should lead to further core personal consumption expenditures (PCE) disinflation in the coming months. This should gradually solidify Fed officials' confidence that inflation is moving sustainably toward the 2% target. While we continue to expect the onset of the Fed easing cycle in June and believe the Fed is likely to proceed with three rate cuts this year, reports like these may tilt some policymakers toward expecting fewer rate cuts in 2024 and a later onset of the easing cycle.
- Amid rising cost fatigue — with households increasingly feeling the pinch from higher prices and interest rates — the job market remains a key support to the US consumer and the economy. Looking ahead, though, we foresee softer labor market conditions, with cooler hiring and some continued moderation in nominal wage growth. We expect job growth to slow markedly over the course of the year, and we see the unemployment rate rising to 4.2% by year-end.

In the details

Employment growth in March remained broad-based, with the employment diffusion index — a measure of how many private sector industries are adding jobs — ticking up to 59.4%, which is roughly in line with the pre-pandemic average of 58.8% in 2019. The private sector added 232,000 jobs last month — the largest increase since May 2023 — and the government sector added 71,000 jobs. Factoring the upward payroll revisions in January and February, the private sector added an average of 212,000 jobs over the past three months.

Looking into the details, the health care sector continued to lead job creation as the lingering impact of the pandemic and acute labor shortages of health care practitioners is easing. Health care payrolls grew a robust 72,000, with hospital payrolls (+27,000) remaining in a strong uptrend as hospitals are ramping up their hiring amid rising operating margins and revenues. Employment in ambulatory health care services (+28,000) also saw a robust gain while nursing and residential care facilities (+18,000) saw a moderate payroll increase. Overall, health care employment accounted for nearly a third (31%) of all private sector jobs added in March.

The leisure and hospitality sector added 49,000 jobs in March, the most in five months. The increase was again driven by food services and drinking places (+28,000) while hiring in arts, entertainment and recreation (+18,000) picked up modestly.

Retail employment (+18,000) posted another solid increase, driven by general merchandise stores (+20,000). In contrast, transportation and warehousing (+1,000) payrolls surprised on the downside with a mere advance in March, weighed down by a decline in couriers and messengers (-1,000).

Government hiring remained a driving force of labor market strength. In March, the sector added 71,000 jobs led by solid hiring in local government (+49,000).

Pockets of softness remained visible in March. Professional and business services (+7,000) posted a weak payroll increase — below the average 26,000 gain in the prior three months — with temporary employment (-1,000) contracting. There were also signs of softness in the finance sector (+3,000) and in the information sector, which did not add any jobs last month.

On the goods front, the 42,000 increase was again entirely driven by construction employment, which rose by 39,000 jobs as manufacturing payrolls were unchanged. Factory hiring has remained sluggish over the past year as the sector faces challenges from weaker domestic and global demand for manufactured goods and higher borrowing costs.

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