Payroll Data for March 2016

Summary

The economy added 215,000 jobs in March continuing a healthy pace of job growth. The rebound was widespread throughout the economy except manufacturing. The January and February numbers were virtually unchanged. The unemployment rate rose to 5.0 percent from 4.90 percent. Both labor force and participation rate rose. Wage gains increased at a faster pace of 0.3 percent for the month amounting to 2.3 percent from a year ago.

Analysis

The U.S. job machine continues to hum in contrast to the slowing global economy; about 14 million jobs have been created since the end of the recession including 2.4 million in the past year. Manufacturing lost jobs as the strength of the dollar and the lower price of oil continue to be a headwind for the industrial sector. Also, consumer spending, representing 70 percent of the economy, and investment have been slowing dampening demand for retailers, food services, tourism, etc.

Despite the healthy job report, the global economy still represents a significant hurdle to the U.S. economy. Ms. Yellen and other Fed officials have signaled concerns about the state of the global economy and also said that they would like to see more signs that the increase in inflation is sustainable.

The dollar's strength has been equivalent to a 0.5 percentage point hike in the interest rate persuading the central bank to put on hold another hike in the interest rate for April. With the latest job report, however, a hike in June is on the table once again.

The unemployment rate edged up to 5.0 percent from 4.9 percent as labor force rose. As the job outlook improves, more job seekers are flocking to the labor market, a good sign.

A missing piece, the wage inflation may have begun the long-waited acceleration rising 0.3 percent for the month or 2.3 percent from a year ago. The labor market, both in skilled and unskilled categories, continues to tighten forcing employers to hike wages. All indications are that wage gains will accelerate in coming months. However, as labor force and the participation rate rise, employers have less incentives to offer higher wages especially in unskilled sectors of the economy.

Small businesses, which depend on the relatively healthy U.S. economy, are more comfortable about the economic outlook and have been hiring people. In response to lower fuel prices, better demand and easing credit conditions, SME hiring has been a source of employment strengths and layoffs have been slowing. On the other hand, large businesses, which are more exposed to the weaker global economy, faces stiffer headwinds.

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