The Main Driver of the Current Recovery Has a Bad Month

HOW WILL THE FED RESPOND?

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The Federal Reserve has stated on numerous occasions that job growth will eventually lead to wage inflation, which in turn, will cause the Fed to begin raising interest rates. Job growth has been solid for the past year but the number printed for March may lead to some concern among the Fed members. Employers in March added the fewest workers since December 2013, and the jobless rate held at 5.5 percent as companies sought to bring U.S. headcounts in line with an economy that throttled back at the start of the year. The 126,000 increase was weaker than the most pessimistic forecast in a Bloomberg survey and followed a 264,000 gain in February that was revised lower than initially reported. Companies tempered the pace of hiring as rough winter weather, tepid overseas markets and a slowdown in energy-related capital investment combined to sting the economy. The smaller advance in employment broke a year-long sting of monthly gains exceeding 200,000, which was the longest such stretch since 1995.

Payroll estimates of 98 economists in the Bloomberg survey ranged from gains of 179,000 to 300,000. Revisions to prior reports subtracted a total of 69,000 jobs to overall payrolls in the previous two months. The slowdown in employment was broad-based. Goods producers, including factories, construction firms, and the industries that support oil and gas well drilling, cut jobs in March. Manufacturing payrolls dropped for the first time since July 2013, and employment in the leisure and hospitality industries was the weakest since September that same year. The unemployment rate, which is derived from a separate Labor Department survey of households, matched the Bloomberg survey median of 5.5 percent. The participation rate, which indicates the share of the working-age people in the labor force, decreased to 62.7 percent, matching the lowest rate since 1978.

Average hourly earnings rose by 0.3 percent from the prior month, to $24.86. The gain from a year earlier was in line with the average since the expansion began in June 2009. The average work week for all workers fell by six minutes to 34.5 hours. Inclement winter weather may have played a role in reducing hours. The Labor Department said 182,000 people were unable to work because of weather, 41,000 more than the average for March. Another 531,000 people who usually work full-time could only find part-time work, up from an average of 450,000 for the month.

The plunge in oil prices is weighing on producers and companies that build equipment and supply materials to the industry. U.S. Steel Corp., in late March, notified 2,080 workers at an Illinois factory about potential dismissals. The country's second-biggest producer of steel cited adverse market conditions including cheap imports and lower oil prices. According to the median estimate in a survey of economists by Bloomberg, the economy probably expanded in the first quarter at a rate of 1.5 percent annualized.

The labor landscape isn't all doom and gloom. Some companies are expanding. SolarCity Corp., the biggest U.S. rooftop solar installer, said in March that it plans to hire at least 300 people to expand its sales force.   The new employees will work at an office in Roseville, California. Further hiring would help alleviate slack in the labor force and allow wages to pick up. The outlook is improving for wage earners at the lowest end of the income scale. McDonald's Corp. has announced plans to boost worker pay above the minimum wage. Wal-Mart Stores Inc., the largest U.S. discount chain, and Target Corp. are also making similar moves.

Federal Reserve Chair Janet Yellen said at a conference in March that she expects the central bank to raise interest rates this year, and that subsequent increases will be gradual with following a predictable path. The Fed would be wise to be methodical in its raising of interest rates as to avoid the possibility of halting the current economic recovery. The Fed made this mistake in the 1930's when coming out of the Great Depression, it raised rates higher too quickly and sent the country back into recession.

Source of statistical information: Bloomberg.