US Economy Gained 431,000 Jobs in March as Tight Labour Market Persists

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The US recorded strong jobs growth in March as higher wages lured more workers back to the labour force, giving the Federal Reserve another data point supporting more aggressive monetary policy to tame inflation.

Employers in the world's largest economy added 431,000 jobs last month, according to the Bureau of Labor Statistics, a cooler pace than the upwardly revised 750,000 positions created in February and less than Bloomberg's consensus forecast of 490,000 jobs, but still a substantive increase in a tight labour market.

For the first quarter of 2022, job growth averaged 562,000 per month, in line with 2021. The unemployment rate plummeted to 3.6 per cent, a 0.2 percentage point drop from February and the lowest level since before the pandemic.

In addition to March's gain, January and February payrolls were revised higher by a combined 95,000, further cementing the view the US economy is headed towards a full recovery from the pandemic, said Bill Adams, chief economist at Comerica Bank.

Following the latest release, a sell-off in short-dated US government debt gathered pace, extending losses that culminated in the worst quarter for Treasuries on record. It came as expectations grew that the Fed will need to ramp up the pace at which it is scaling back its economic support.

The yield on the US two-year Treasury note, which is sensitive to monetary policy expectations, rose roughly 0.1 percentage point to 2.44 per cent.

The drop in the unemployment rate "was larger than expected and broad-based across groups that have historically lagged in economic recoveries", Adams continued, but he added that it "increases urgency" on the central bank to tighten policy.

“This jobs report solidifies the case for a 50 basis point rate rise by the Fed at their next meeting,” he said, double its typical quarter of a percentage point pace.

On Friday, US president Joe Biden said fewer unemployed Americans meant more families had more “breathing room”, but acknowledged that inflation, which is running at its fastest pace in 40 years, remains far too high.

“Even though we created a record number of jobs, I know that this job is not finished,” Biden said. “We need to do more to get prices under control.”

He noted that gas and food prices have increased following Russia’s invasion of Ukraine, and flagged his administration’s move this week to order a “historic release” of about 180mn barrels of oil from the US emergency stockpile in a bid to cool crude prices.

The data released on Friday also showed a pick-up in monthly wage growth after a surprising slowdown in February.

Average hourly earnings registered a 0.4 per cent monthly gain, translating to a 5.6 per cent increase from the same period last year, as businesses continued to compete for talent and rush to fill a near-record number of job vacancies. For every unemployed person, there are roughly 1.7 openings.

At these high levels, the risk to wage growth is now leaning towards the downside, said Michael Pearce, senior US economist at Capital Economics.

“Those strong gains mean wage growth will fall from here, with the survey evidence on pay growth and broader measures of slack, like job openings and quits, suggesting that labour market shortages and pay pressures have levelled off,” he said.

Conversely, this could lead to weaker underlying inflation and take pressure off the Fed to raise rates aggressively, he added.

As wages have increased and concerns over the Covid-19 pandemic have receded, the share of Americans either employed or looking for work has crept higher, but remains shy of pre-pandemic levels.

The shortfall narrowed marginally in March, with the labour force participation rate edging up 0.1 percentage point to 62.4 per cent. In February 2020, it stood at 63.4 per cent.

The BLS said gains were “notable” in the leisure and hospitality sector, with 112,000 positions added, as well as for retail companies and manufacturing, which added a combined 87,000 jobs. Employment in professional and business services rose 102,000.

“This pace of job gains would not be sustainable for a few more months with the amount of slack we expect,” said Jeremy Schwartz, senior US economist at Credit Suisse, of the aggregate monthly figure. He forecasts about 1m more workers to still return to the labour force, nudging the unemployment rate down further.

The jobs data were collected as Russia’s war in Ukraine escalated sharply, triggering a surge in the prices of oil and other commodities. Despite heightened uncertainty and soaring costs the US labour market remains extremely tight by historical standards.

At a press conference in mid-March following the first interest rate increase since 2018, Fed chair Jay Powell warned the labour market was “tight to an unhealthy level” and expressed concern about the potential feed through of higher wages to price pressures.

In the face of persistent inflation, the US central bank has signalled its plans to steadily tighten monetary policy after two years of highly stimulative settings.

Officials have expressed a clear willingness to increase the pace further and deliver this year at least one half-point rate rise — something it has not done since May 2000.

Most policymakers expect rates to approach 2 per cent by the end of the year from the current range of 0.25 per cent to 0.50 per cent, according to the latest projections, and eventually rise to 2.8 per cent in 2023. That is above the median estimate of the “neutral” rate and suggests a policy stance that begins to restrict economic activity.

Despite a tighter fixing, members of the Federal Open Market Committee and other bank branch presidents do not believe their efforts to tame inflation will lead to a sharp rise in unemployment or cause a recession.

The bond market has been flashing a possible warning sign for the US economy after the inversion this week of one widely watched portion of the yield curve, which tracks the difference between two-year and 10-year Treasury yields.

“It is not the biggest deal in the world if they go 25 versus 50 bps,” said Holly MacDonald, chief investment officer at Bessemer Trust. “What is more important is if they are going to cause a recession with their tightening cycle.”

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