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Highlights

- The US economy generated 162,000 jobs in March and the unemployment rate held steady at 9.7%.
- The composition of job growth improved with 60% of industries hiring and private payrolls up by 123,000 during the month.
- If we see similar trends in the April and May employment data, the Federal Reserve will seriously contemplate removing the "extended period" language from its policy statement to indicate that interest rates may begin to rise by year end.

Employment Data Show Strength Below the Surface

The US economy generated 162,000 jobs and the unemployment rate held steady at 9.7% in March. Although this was the fastest pace of job creation in three years, it was much less than the 200,000-plus jobs anticipated by the consensus of economists. Nevertheless, the healthier composition of the job gains (private versus government) more than made up for the shortfall in overall job creation. If we see similar trends in the April and May employment data, the Federal Reserve will seriously contemplate removing the "extended period" language from its policy statement to indicate that rates may begin to rise by year end. This event could prompt a sharp rise in 2-year Treasury yields and a flattening of the yield curve.

Improving Composition of Job Gains With More Industries Hiring

Private payrolls were up by 123,000 during March with 60% of industries hiring. Employment in service-producing industries was up by 82,000, while job growth in goods-producing industries was up by 41,000. Construction employment bounced back as the negative effects of bad weather in February disappeared.

The lower-than-expected headline employment number resulted from less hiring by the Federal government for the US Census than forecast. Still, government payrolls increased by 41,000 in March. Census-related hiring is likely to pick up in the next two months and will impact the payroll figures until next fall. Leading indicators of the labor market, including hiring of temporary help, continue to point to further employment gains in the private sector. Temporary help services added 40,000 jobs in March and has added a total of more than 300,000 jobs over the last six months. Companies will often test the waters with temporary workers before bringing on full time hires.

Over the past year, the US economy has gone from losing an average of 750,000 jobs in Q1 2009 to gaining an average of 50,000 jobs in Q1 2010. Job creation is likely to average around 150,000 to 200,000 by the end of the second quarter. As we have said previously, employment was the missing piece of the puzzle for a sustainable rebound in private demand. Now that it has arrived, the US recovery is likely to transition into an economic expansion.

Sixty Percent of Private Industries Surveyed Were Hiring in March

