FLASH NOTE – BETTER THAN EXPECTED US JOBS REPORT DRIVEN BY LEISURE/HOSPITALITY GAINS

The report confirms that the economy is still a long distance from the Fed’s newly ambitious goal of broad-based and inclusive full employment – with 9.5 million missing jobs and a participation-and classification-adjusted unemployment rate of 9.5 percent.

But the much stronger than expected pace and compositional breakdown of the payroll gains indicate that progress towards this goal could be quite rapid, in particular in the early summer months ahead, which could plausibly see very large payroll gains.

This will increase anxiety in the market that under the Fed’s economic outcome-based policy economic conditions could move faster than anticipated to levels consistent with Fed QE tapering and ultimately rate hikes – and increase pressure on the Fed to fall back on more calendar-type guidance to provide the reassurance the market craves but Powell declined to extend in his remarks Thursday.

Looking further out, it underscores that under the type of economic rebound that seems likely, the main determinant of the timing and pace of future rate hikes will be inflation dynamics after the initial bump associated with the restart from the pandemic is passed.

The report was positive on both the payroll and household sides and may be giving the first signals of thawing from the difficult winter months.

The payroll number of +379,000 (+465,000 private sector) plus +38,000 was roughly double expectations; 355,000 of the gain was due to leisure and hospitality alone, perhaps a harbinger of growth to come when vaccines are even more widely distributed later in the year. But the US is still short -9.5 million jobs from last February, and leisure and hospitality is short -3.5 million jobs (and would be even larger against pre-crisis trend employment), so the gaps remain substantial.

The unemployment rate ticked down slightly to 6.2% on small growth in household employment; the labor force participation rate was flat. The Fed’s preferred adjustments for misclassification and labor force declines since February would yield a rate of 9.5%, down 0.1pp from last month. Temporary layoffs fell by around half a million, while permanent unemployment was flat. The prime-age (25-54 year old) employment-to-population ratio ticked up by +0.1pp.
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