

Economic Analysis

Labor Market Continues to Add Jobs at a Steady Rate

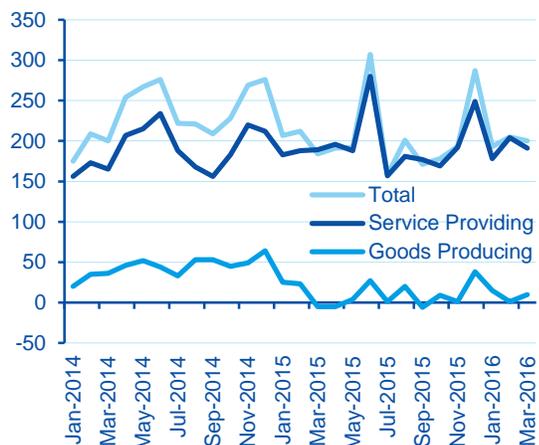
Filip Blazheski

- **ADP nonfarm employment increased 200K in March, driven by gains in service industries**
- **All industries added jobs except energy, with large businesses especially speeding up hiring**
- **Solid payrolls report is expected from the BLS on Friday, alongside gains in average earnings**

The ADP employment report noted a 200K gain in private nonfarm employment in March, compared to February's 205K increase (Chart 1). The results were in line with consensus and reinforce the positive news in regards to unemployment and labor force participation. Not surprisingly, the only industry in which payrolls declined in March was energy, as has been the case for over a year, according to Moody's Analytics, which collaborates with ADP in the production of this report.

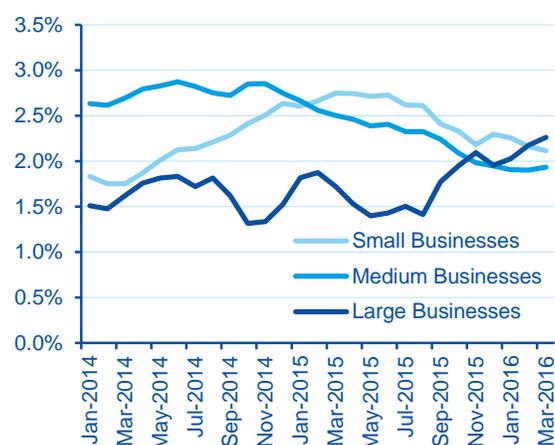
This month's improvement is almost completely due to the services segment, which has been the story for the last year or so. The services segment added 191K jobs, compared to 204K in February. The trade, transportation and utilities sector added 42K jobs, which was this industry's best showing in nine months, and financial activities added 14K compared to 8K in February. That said, professional and business services added 28K, the least in five months. One thing that stood out in the BLS's February nonfarm payroll report was that average hourly earnings decreased despite improvements in job growth, likely because a lot of the newly generated jobs were in lower-paying service-industry positions. We expect to see this reversed in March with a pickup in wage growth.

Chart 1
Nonfarm Private Payroll Employment SA, MoM Change, Thousands



Source: ADP and BBVA Research

Chart 2
Nonfarm Private Payroll Employment % YoY



Source: ADP and BBVA Research

The goods producing sector, despite the relatively small gains of 10K, continued to add jobs for the sixth straight month, boosted by gains in construction. The gains in construction in March, however, were down to 17K from 24K in February, which is not ideal considering the solid demand for housing nationwide and supply shortages in multiple markets. The manufacturing industry added 3K jobs after shedding 9K jobs in February and continues to struggle to generate jobs as it is weighed down by lower demand from the energy industry, the stronger U.S. dollar, and weaker global demand.

Small, medium, and large businesses all continued to add jobs in March. On a YoY basis, large businesses are speeding up the growth in hiring (especially businesses with 1,000+ employees), while small and mid-size businesses are slowing down somewhat (Chart 2). This slower growth trajectory for smaller firms is likely related to the February decline in small business optimism.

While the ADP report doesn't always match the BLS's nonfarm payroll report, today's data support our expectation that Friday's employment figures will show that the economy added jobs at a steady pace slightly above the 200K threshold.

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.