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TD Economics

Data Release: April payrolls disappoint as seasonal effects catch up

- Non-farm payrolls increased by 160k in April, or about 40k below the expected gain. Benchmark revisions to the previous two months' payrolls subtracted another 19k positions.
- Private payrolls rose by a slightly higher 171k, also below consensus, led by business services (+65k), health care & education (+54k) and leisure & hospitality (+22k). Goods-producing industries had another weak month as muted gains in manufacturing (+4k) and construction (+1k) were more than offset by declines in mining (-8k). Government also shed jobs (-11k) on weakness in federal payrolls.
- The unemployment rate was unchanged, as the decline in household employment was matched by a pullback in the labor force. After rising for 0.5pp of the past four months, the participation rate fell 0.2pp to 62.8%.
- Average hourly earnings rose by 0.3% during the month, on par with expectations, with the year-over-year rate accelerating from 2.4% to 2.5% in April.
- Average weekly hours increased by 0.1 (0.3%) to 34.5.

Key Implications

- This morning's report was disappointing. After two months of 200k+ job growth, payroll gains slowed to their lowest pace in seven months. To make matters worse, positive trends recently seen in the participation rate appear to have reversed during the month, throwing some cold water on the notion that the red hot labor market is pulling in workers from the sidelines.
- Still, the report is not, in and of itself, a surprise. Payrolls and household employment had a good run in recent months, partly boosted by an unseasonably warm winter, and were likely due for some payback. This notion is corroborated by the fact that the highly-seasonal construction and retail industries had together the worst month of hiring in nearly four years – losing a combined 2,100 positions after adding an average of nearly 80,000 positions over previous months.
- There were also some silver linings in the report. Manufacturing payrolls expanded after two horrendous months while the mining sector cut jobs at the slowest pace in six months, suggesting that both of these sectors have seen the worst of it. Moreover, average hours were up 0.1 after falling lower earlier in the year, while wage gains continued at a robust monthly pace, together combining for a hefty 0.6% gain in average weekly earnings. While this pace of wage gains will not be keeping the FOMC officials up at night and should keep the Fed hikes very gradual, rising incomes will nonetheless underscore a continued consumer led economic recovery.

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