Daiwa Capital Markets

U.S. Data Review

- Employment: below average, but still solid
- Unemployment: workers are returning to the labor force and finding jobs
- ISM manufacturing: firm activity despite elevated prices and supply-chain difficulties

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The Labor Market

Nonfarm payrolls rose 431,000 in March, a bit lighter than the expected increase of 490,000 and noticeably below the average of 564,000 in the prior 12 months. The light-side reading was not especially disappointing, however, as the report also showed upward revisions in the prior two months totaling 95,000. Those revisions left job growth of 750,000 in February, and some cooling might be expected after such a jump. Employment is making steady progress in returning to pre-pandemic totals, as nonfarm payrolls have regained 93 percent of the ground lost with the onset of Covid and are now 1.6 million jobs shy of the peak in February 2020.

The breakdown of job growth by industry did not show any striking movements. Employment in the business service and leisure & hospitality sectors posted above-average results, but not by shocking amounts (up 0.5 percent and 0.7 percent, respectively, versus 0.3 percent for total nonfarm payrolls). The pace for business services was in line with other recent results; the rate of growth in the leisure & hospitality sector was below the recent average gain of 1.2 percent in the prior 12 months. The information industry also performed well with a gain of 0.5 percent, matching its average in the prior 12 months.

We viewed the payroll figures as favorable, but we were more impressed with results from the household survey, which showed job growth of 736,000 in March. We usually interpret results from the household survey cautiously because the figures tend to be volatile from month-to-month. However, this portion of the report has shown persistently favorable results since last summer, with average job growth totaling 761,000 since last July. These gains pushed the unemployment rate 2.3 percentage points lower to 3.6 percent, including a drop of 0.2 percentage point in the latest month.

The household survey also has shown notable increases in the size of the labor force in recent months, with an average gain of 560,000 in the past five months. The size of the labor force is now only 174,000 shy of the pre-

Employment Report*

	Nonfarm Payrolls (Chg., Thousands)		Private-Sector Payrolls	Unemp. Rate (Percent)	Broad Unemp. Rate	Household Emp. (Chg., Thousands)	Labor Force	Emp.-Population Ratio (Pct.)	Median Duration of Unemp. (Weeks)	Part-Time Econ. Reasons (Thou.)	Avg. Hourly Earnings % Chg.	Avg. Workweek (Hours)
Annual Average												
2019	164		146	3.7	7.2	167	124	60.8	9.2	4,407	0.2	34.4
2020	-774		-688	8.1	13.7	-741	-330	56.8	12.6	7,227	0.5	34.6
2021	562		524	5.4	9.4	508	135	58.4	16.1	4,914	0.4	34.8
2022	562		552	3.8	7.1	828	705	59.9	9.1	4,007	0.4	34.6
2021 Monthly												
Apr.	263		212	6.0	10.3	319	347	57.9	19.4	5,245	0.5	34.9
May	447		381	5.8	10.1	291	-177	58.0	19.3	5,267	0.5	34.9
June	557		508	5.9	9.8	62	313	58.0	19.6	4,616	0.5	34.8
July	689		638	5.4	9.2	1,092	261	58.4	14.4	4,450	0.5	34.8
Aug.	517		497	5.2	8.8	463	130	58.5	14.2	4,481	0.3	34.7
Sep.	424		409	4.7	8.5	639	-34	58.8	13.7	4,450	0.5	34.8
Oct.	677		694	4.6	8.2	428	139	58.9	13.0	4,398	0.6	34.8
Nov.	647		627	4.2	7.7	1,090	516	59.3	13.4	4,266	0.4	34.8
Dec.	588		561	3.9	7.3	651	168	59.5	12.9	3,929	0.5	34.8
2022 Monthly												
Jan.	504	(481)	492	4.0	7.1	1,199	1,393	59.7	10.1	3,717	0.6	34.6
Feb.	750	(678)	739	3.8	7.2	548	304	59.9	9.6	4,135	0.1	34.7
Mar.	431		426	3.6	6.9	736	418	60.1	7.5	4,170	0.4	34.6

** Preliminary readings on nonfarm payrolls shown in parenthesis.*
Source: Bureau of Labor Statistics via Haver Analytics

pandemic peak in February 2020. The adult population has also been growing, and thus the labor force participation rate is still noticeably below the pre-Covid peak of 63.4 percent, but it has picked up recently, increasing 0.7 percentage point in the past five months to 62.4 percent. This measure had been showing only the slightest of upward drifts during most of 2020 and 2021.

Average hourly earnings rose 0.4 percent, in line with the recent average. The increase left the year-over-year advance at 5.6 percent, the firmest gain in the current cycle.

The length of the average workweek slipped 0.1 hour to 34.6 hours, a reading at the bottom of the recent range. The dip in the workweek left the index of total hours worked unchanged in March. This measure combines the influences of both employment and the length of the workweek. It provides a snapshot of only one week during the month, but no change in the measure raises the possibility of a slow month for production.

ISM Manufacturing Index

The manufacturing index published by the Institute for Supply Management declined 1.5 percentage points in March to 57.1 percent, a contrast to the consensus estimate of a pickup to 59.0 percent. Although the index has slipped in two of the first three months of 2022, and it trails the particularly strong performance in the first half of last year (61.2 percent average from January to June 2021), the March result was still in the upper end of the historical range and a reading that signals a firm underlying performance in the manufacturing sector. Moreover, the reading should be viewed as favorable given price pressures and supply-chain issues made worse by the Russia-Ukraine conflict.

The new orders component led the decline in the headline measure with a drop of 7.9 percentage points to 53.8 percent (chart, right). While the reading was the softest in more than a year and a half, the ISM report noted that the slowdown in new orders stemmed in part from “panelists’ order books being full,” rather than a slowdown in underlying demand. With orders slowing, production eased 4.0 percentage points to 54.5 percent, a solid but unspectacular reading from a longer-term view. The employment component registered an encouraging advance in March (up 3.4 percentage points to 56.3 percent). The latest reading was notably firmer than last year’s average of 52.8 percent, and it perhaps signaled that labor shortages are easing in the factory sector.

Survey respondents continued to note transportation and supply-chain issues in March. While the supplier deliveries component eased 0.7 percentage point to 65.4 percent, and it was significantly below the recent high of 78.8 percent last May, the level of the index indicates that supply-chain congestion is still an issue. Supply pressures also were evident in the prices index, which surged 11.5 percentage points to 87.1 percent. The latest reading trails the recent high of 92.1 percent in June of last year, but it is in the upper-end of the historical range.

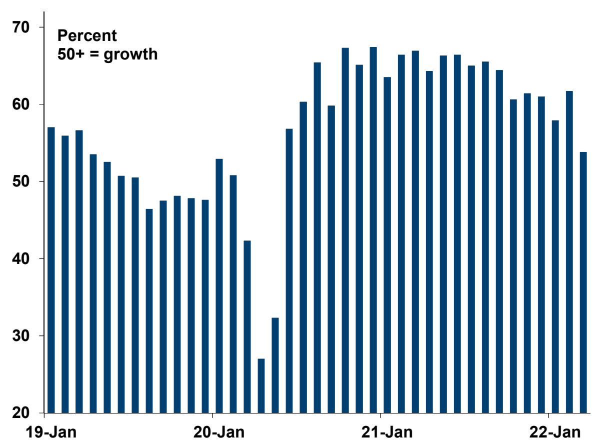
ISM Manufacturing: Monthly Indexes

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
ISM Mfg. Composite	60.6	58.8	57.6	58.6	57.1
New orders	61.4	61.0	57.9	61.7	53.8
Production	60.2	59.4	57.8	58.5	54.5
Employment	53.0	53.9	54.5	52.9	56.3
Supplier deliveries	72.2	64.9	64.6	66.1	65.4
Inventories	56.3	54.6	53.2	53.6	55.5
Prices paid*	82.4	68.2	76.1	75.6	87.1

** The prices paid index is not seasonally adjusted. The measure is not part of the ISM manufacturing composite index.*

Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics