March Payrolls Report; Fed's Dudley; Canada Jobs

By Ben Baris and Geoff King

What to Watch: Economists surveyed by Bloomberg forecast March nonfarm payrolls rose 180,000, down from 235,000 in February as initially reported, 8:30 a.m. The unemployment rate is expected to hold at 4.7 percent. Average hourly earnings may advance 0.2 percent from a month earlier, matching February's rise, and 2.7 percent from a year ago, down from 2.8 percent previously. Follow the TOPLive blog on the Bloomberg terminal for real-time coverage of the release. New York Fed President William Dudley will give a speech at 12:15 p.m. on the state of financial regulation and the potential for reform in New York.

Economics: Canada is expected to see a 5,700 net gain in employment in March, down from 15,300 the month before, while the unemployment rate is forecast to rise 0.1 percentage point to 6.7 percent, 8:30 a.m. Mexico consumer prices are expected to rise 0.58 percent in March from a month earlier, equaling February's gain, and 5.31 percent from a year ago, up from 4.86 percent previously, 9 a.m. EU finance ministers and central bank chiefs gather in Valletta, Malta, for a two-day informal meeting of the Economic and Financial Affairs Ministers on issues pertaining to the common currency and a review of Greece’s bailout.

Government: U.S. President Donald Trump continues his meeting with Chinese counterpart Xi Jinping at Trump's Mar-a-Lago club in Palm Beach, Florida. The U.S. Senate is expected to vote on Neil Gorsuch's nomination as Supreme Court Justice. Gorsuch, currently a federal appellate judge, is President Trump's pick and seems likely to be confirmed for this lifetime appointment.

Markets: Gold, oil and government bonds were among the biggest gainers following the U.S. missile attack on Syria. Russia's ruble dropped the most in almost a month and its bonds fell as optimism over a detente with the U.S. evaporated.

Payroll Growth in U.S. Closes In on Best 1Q Since 2012

For all the soft economic data that have soared this year, the government’s employment figures are hard evidence that American companies are confident about demand and the economy’s prospects. Payrolls are projected to climb by 180,000 in March, which would bring the average monthly gain so far this year to 218,000 — the strongest first quarter for the U.S. labor market since 2012.

— Vince Golle

(All times local for New York.)
Beware Nor’easter Snow Job on Hours and Earnings

By Carl Riccadonna and Yelena Shulyatyeva, Bloomberg Intelligence economists

The March jobs report will provide two critical signals: First, the magnitude of the payroll gain will indicate whether hiring momentum is indeed increasing, or whether the February upside surprise was an anomaly, potentially related to mild weather conditions early in the year. Second, the aggregate income trend will be scrutinized in order to determine if consumer spending is in jeopardy following an inordinately weak start to the quarter.

What to expect:

- The consensus among economists polled by Bloomberg anticipates an increase in March nonfarm payrolls of 180,000 (170,000 private), moderately below the six- (194,000) and 12-month (196,000) moving averages. The payroll trend has been showing nascent signs of reaccelerating in recent months. BI Economics, which expects hiring to pick up as output growth firms over the next few quarters, projects an above-consensus outcome, closer to 225,000.

- The seasonal adjustment of the payroll data remains positive in March, in order to account for early-year hiring. Over the last decade, the seasonal adjustment factor for March has averaged near 678,000. The adjustment factor in February (775,000) was noticeably larger than average (622,000), thereby implying a more aggressive adjustment which nonetheless still produced a stronger-than-expected headline payroll gain.

- The median forecast for the unemployment rate anticipates no change for March (at 4.7 percent). The unemployment rate has entered an extended period of stability in the vicinity of 5 percent since mid-2015. Any deviation in the unemployment rate should be considered in the context of changes in labor-force participation, as policy makers may welcome rising unemployment if it stems from individuals re-entering the labor force, i.e. rising participation. BI Economics anticipates a decline in the unemployment rate to 4.6 percent.

- Consensus projects no change in the length of the workweek, at 34.4 hours.

While the workweek has remained in a tight range, BI Economics sees temporary downside risks to the number due to weather-curtailment of hours related to Winter Storm Stella.

- Average hourly earnings could send a misleading signal due to the aforementioned reduction in average weekly hours, which could temporarily push hourly earnings higher. BI Economics anticipates a 0.3 percent gain in average hourly earnings, slightly above consensus (0.2 percent).

A closer look at the employment data suggests the economy has the capacity to add jobs near the current pace for a while longer without conditions becoming excessively lean, assuming some rebound in workforce participation. However, the pool of potential workers is not unlimited. There are three main sources to be tapped for additional labor supply: the ranks of the unemployed, individuals outside of the labor force, who could be coaxed in by favorable job prospects, and recent graduates, who are essentially first time entrants to the workforce.

Job gains since the Great Recession have drawn down the ranks of the unemployed considerably. Unemployment totaled nearly 15 million in 2010 and stands at slightly above 7.6 million at present. It managed to dip to about 6.9 million at the low point of the previous economic cycle, which would thereby imply a remaining reserve of approximately 800,000 potential workers.

Intensifying labor scarcity is compelling employers to increasingly look outside of the current labor force for headcount. There are presently 5.8 million people in the U.S. who want a job, but are not counted among the unemployed because they are not actively looking for work for various reasons. This exceeds the pre-recession low (4.6 million) by about 1.2 million.

The remaining source of new hires is the pipeline of young workers coming out of various stages of education. The natural expansion of the labor force (mostly due to population growth) has averaged close to 1 million per year since 2000.

By combining these three sources, BI Economics estimates that there is a reserve of approximately 3 million potential workers before labor conditions become as lean as they were in the late stages of the previous economic cycle. The economy has been adding jobs at a rate of roughly 2.4 million per year, so the aforementioned reserve looks adequate — but by a very thin margin (and this does not account for skills mismatches). A worker shortage is not imminent, but scarcity issues will become increasingly prevalent over the coming year.
C-Suite Chatter on AI Sparks
By Michael McDonough, BI economist

The rise of the machines continues, both on the factory floor and in commentary coming from the C-suite.

Business attention to artificial intelligence is sharply escalating, and this trend accelerated in the first quarter. While the adoption of true artificial intelligence remains a ways off, it will eventually have a profound impact on the entire economy. Disruptions have already started to occur in the manufacturing sector, based on technological improvements.

In the first quarter of 2017, 244 company transcripts published on the Bloomberg Transcript wire mentioned “artificial intelligence,” up from 191 in the fourth quarter of 2016 and 67 in the first quarter of that year. As wage costs continue to rise, the introduction of labor-disruptive technologies could eventually shift the political debate to the skills-imbalance of the U.S. labor market, from what President Donald Trump perceives to be unfair trade deals.

A gradually improving U.S. economy, coupled with rising wages, may help finally push productivity higher. At the same time, this may also hasten technology-led labor market disruptions. As workers became more expensive, businesses will take action to more aggressively optimize output relative to labor costs, and boost productivity as a result.

U.S. manufacturing employment peaked in June 1979, at 19.4 million workers; yet by November 2016, it had fallen to 12.3 million, a decline of 7.1 million jobs. This steep drop, which accelerated following China’s accession to the World Trade Organization in 2001, made the sector a target of Trump’s presidential campaign and helped his election victory.

While the number of manufacturing jobs has plummeted, real manufacturing output has more than doubled since 1979, advancing nearly in line with overall GDP. Technological developments have allowed fewer workers to produce substantially more in the sector. For example, in 1979 real manufacturing output per worker equaled $41,644.75, adjusted for inflation. As of 2015, real output per worked surged to $155,227.92. This has several implications for the future.

Rather than imposing tariffs on some of the country’s trading partners or introducing other protectionist policies, the Trump administration would probably do more for industry by introducing reforms elsewhere.

In the near-term, these initiatives might include a lower corporate tax rate and measures to attract highly-skilled workers from overseas to fill gaps in skilled-labor manufacturing positions.

Over the long-term, Trump may want to consider incentivizing vocational schools and science, technology, engineering and math degrees in the U.S.
Data & Events

Fed’s Maturing Treasuries Risk Reviving Market Volatility

The Federal Reserve may find it difficult to minimize market volatility when it begins to slow the reinvestment of its balance sheet given the uneven maturities of its holdings. Analysts expect the Fed will have to decide whether to roll over a certain percentage of its principal or announce a fixed dollar target of its Treasury and mortgage securities to unwind the $4.26 trillion of debt in a “passive and predictable manner.” Under the percentage option, the scale of the Fed’s balance-sheet reduction “will fluctuate significantly” from month-to-month and quarter-to-quarter, “which is just an accident of history,” Wrightson ICAP Chief Economist Lou Crandall said in an April 3 note.

— Alexandra Harris

Calendar

<table>
<thead>
<tr>
<th>TIME</th>
<th>COUNTRY</th>
<th>EVENT</th>
<th>SURVEY</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Change in Nonfarm Payrolls</td>
<td>180k</td>
<td>235k</td>
</tr>
<tr>
<td>8:30</td>
<td>Canada</td>
<td>Net Change in Employment</td>
<td>5.7k</td>
<td>15.3k</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Two-Month Payroll Net Revision</td>
<td>—</td>
<td>9k</td>
</tr>
<tr>
<td>8:30</td>
<td>Canada</td>
<td>Unemployment Rate</td>
<td>6.70%</td>
<td>6.60%</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Change in Private Payrolls</td>
<td>170k</td>
<td>227k</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Change in Manufact. Payrolls</td>
<td>17k</td>
<td>28k</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Unemployment Rate</td>
<td>4.70%</td>
<td>4.70%</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Average Hourly Earnings MoM</td>
<td>0.20%</td>
<td>0.20%</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Average Hourly Earnings YoY</td>
<td>2.70%</td>
<td>2.80%</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Average Weekly Hours All Employees</td>
<td>34.4</td>
<td>34.4</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Labor Force Participation Rate</td>
<td>—</td>
<td>63.00%</td>
</tr>
<tr>
<td>8:30</td>
<td>U.S.</td>
<td>Underemployment Rate</td>
<td>—</td>
<td>9.20%</td>
</tr>
<tr>
<td>9:00</td>
<td>Mexico</td>
<td>CPI YoY</td>
<td>5.31%</td>
<td>4.86%</td>
</tr>
<tr>
<td>9:00</td>
<td>Mexico</td>
<td>CPI MoM</td>
<td>0.58%</td>
<td>0.58%</td>
</tr>
<tr>
<td>9:00</td>
<td>Mexico</td>
<td>CPI Core MoM</td>
<td>0.53%</td>
<td>0.76%</td>
</tr>
<tr>
<td>10:00</td>
<td>U.S.</td>
<td>Wholesale Inventories MoM</td>
<td>0.40%</td>
<td>0.40%</td>
</tr>
<tr>
<td>15:00</td>
<td>U.S.</td>
<td>Consumer Credit</td>
<td>$15.000b</td>
<td>$8.794b</td>
</tr>
</tbody>
</table>

Source: Bloomberg. Surveys updated at 5:10 a.m. in New York.

Click on the highlighted releases to see the full range of economists’ forecasts on the terminal.

Overnight

Europe

- German industrial production unexpectedly rose in February, led by the construction sector, reaffirming the strength of the country’s economic outlook. Output, adjusted for seasonal swings and inflation, gained 2.2 percent from January, when it rose a revised 2.2 percent, the Economy Ministry in Berlin said today. The typically volatile measure compares with a median estimate for a 0.2 percent drop in a Bloomberg survey. Production was up 2.5 percent from a year earlier.

- U.K. manufacturing and construction unexpectedly shrank in February, adding to signs that the economy lost momentum in the first quarter. Factory output fell 0.1 percent from January, the Office for National Statistics said today. Total industrial production declined 0.7 percent as unseasonably warm weather reduced demand for energy. Construction dropped 1.7 percent, the most in almost a year.

Asia

- China’s foreign-currency reserves rose for a second month following a seven-month losing streak, as a retreat in the dollar lifted the valuation of the hoard and capital outflows eased. The stockpile increased by $4 billion to $3.009 trillion in March, the People’s Bank of China said today, that compared with the $3.011 trillion median estimate in a Bloomberg survey of economists.
Today’s Top Minds on Tomorrow’s Markets

The Morningstar® Investment Conference brings the financial industry together to discuss new perspectives on the market. The conference is entering its 29th year with keynote presentations, breakout sessions, and roundtable discussions that bring investing ideas to practice. This year’s speakers include bestselling author Michael Lewis, founder of Wikipedia Jimmy Wales, and Blackrock’s Larry Fink.

Visit mscomm.morningstar.com/bloomberg or call +1 866 839-9729 to learn more
Save $50 with promo code BLOOMBERG50

Follow us on Twitter
@Morningstar #MICUS

© 2017 Morningstar, Inc. All rights reserved. The Morningstar name and logo are trademarks of Morningstar, Inc.

Bloomberg Brief: Economics

Chief U.S. Economist
Carl Riccadonna
criccadonna3@bloomberg.net

U.S. Economists
Richard Yamarone
ryamarone@bloomberg.net

Yelena Shulyatyeva
yshulyatyev2@bloomberg.net

Reprints & Permissions
Lori Husted
lori_husted@theygsgroup.com
+1-717-505-9701 x2204

Marketing & Partnership Director
Courtney Martens
cmartens3@bloomberg.net
+1-212-617-2447

Advertising
Lucy Rosen
lrosen23@bloomberg.net
+1-212-617-6759

Economics Terminal Sales
Matthew Traum
mtraum@bloomberg.net
+1-212-617-4671

Interested in learning more about the Bloomberg terminal? Request a free demo here.