

## March ADP Jobs, ISM Non-MF, FOMC Minutes

### *Ongoing Strong Job Gains and Discussion of a Shift in Fed Policy*

- The March ADP Employment Report showed another strong gain, adding 263,000 private-sector jobs.
- The ISM Non-Manufacturing Index eased to a still-positive 55.2 in March.
- The minutes of the FOMC meeting of March 14/15 show discussion about reducing the Fed's balance sheet.

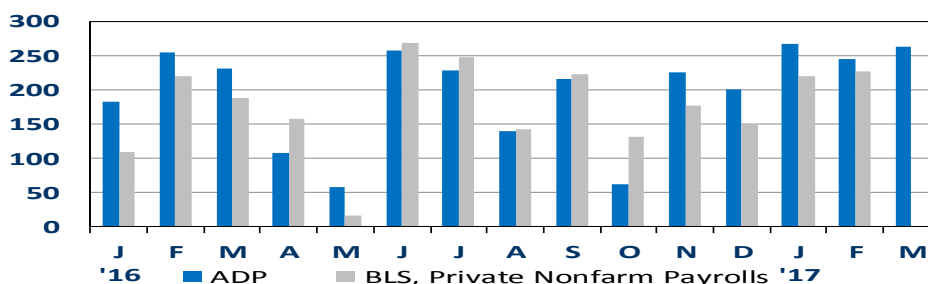
The ADP National Employment Report for March showed another month of strong job growth with 263,000 net new private sector jobs added to the U.S. economy. This report is an important precursor to the official Bureau of Labor Statistics jobs data for March that will be released at 7:30 Central Time Friday morning. The strong ADP report suggests that we will see a similarly strong BLS jobs number for March. The two reports do not have to follow in lock step, because they are derived from completely different methodologies, but over time ADP and the BLS tend to be well correlated. However, since last November ADP private sector job growth has tended to over-estimate BLS private non-farm job growth. Normally we would add about 10,000 jobs to the ADP private-sector total to get an estimate for the BLS non-farm payrolls. However, given the federal government hiring freeze, we will assume that government hiring will not add significantly to the private-sector total. Also, to be conservative, we will shave a little off the ADP number and go with an estimate of about 210,000 net nonfarm jobs added in March, leaving the unemployment rate unchanged at 4.7 percent.

The Institute of Supply Management's Non-Manufacturing Index fell from 57.6 in February, to a still-positive 55.2 in March. This means that the broad service sector is still improving in March, but not as quickly as it did in February. Nine out of ten sub-indexes were in positive territory. Only inventories contracted for the month. The ISM's Non-Manufacturing Index stepped down in March after a strong February, and so did their Manufacturing Index. Together these reports suggest that the rate of overall business activity remained positive, but eased through end of the first quarter.

In the minutes of the March 14/15 Federal Open Market Committee meeting, we see the discussion of plans to reduce the size of the Fed's expanded balance sheet. The discussion focused on a passive reduction in the balance sheet by ending the reinvestment of maturing asset rather than an active strategy of direct sales of assets. Reinvestments could be ended at once, or they could be phased out. The ending or phasing strategy could be different for different types of securities, but it should result in a gradual and predictable reduction in the Fed's security holdings. The timing of the change in reinvestment policy should depend on economic and financial market conditions. Reinvestment could be restarted if the economy encountered significant adverse shocks. The policy should be communicated to the public well in advance. Also, it was noted that the FOMC would continue to discuss balance sheet policy during upcoming meetings. The next FOMC meeting will be over May 2/3. We believe that the Fed will allow the passive roll-off of maturing assets before the end of this year. One possible strategy would be to raise the fed funds rate two more times this year, once on June 14, and then again on September 20, and then keep interest rates unchanged through the end of this year as the Fed initiates balance sheet roll-off.

**Market Reaction:** U.S. equity prices dipped after the release of the Fed minutes. The yield in 10-Year T-bonds is down to 2.34 percent. NYMEX crude oil is up to \$51.05/barrel. Natural gas futures are down to \$3.25/mmbtu.

#### ADP Shows Strong Job Growth in March



To subscribe to our publications or for questions, contact us at [ComericaEcon@comerica.com](mailto:ComericaEcon@comerica.com). Archives are available at <http://www.comerica.com/economics>. Follow us on Twitter: @Comerica\_Econ.