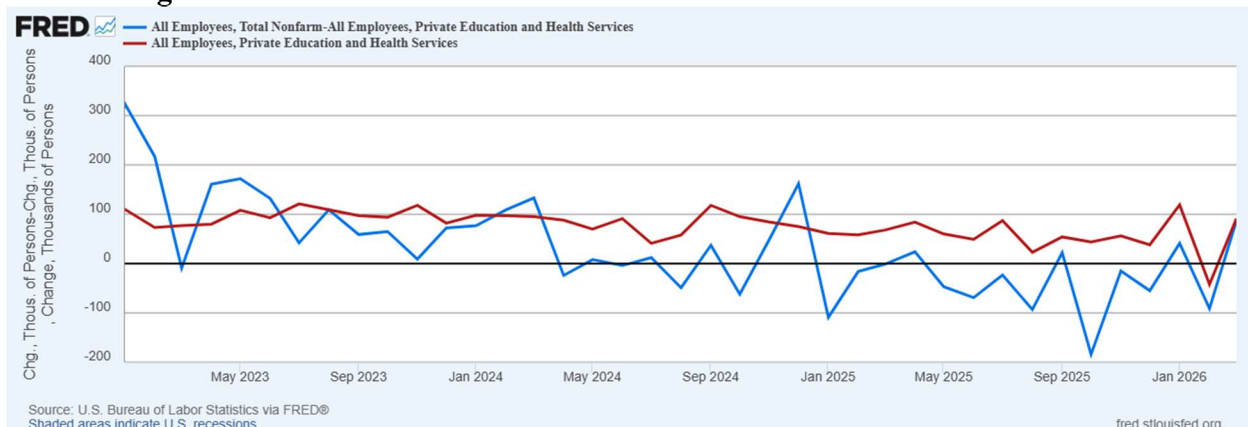


April 3, 2026

The Labor Market Is Still on Very Shaky Ground

The March employment report does not resolve our pessimism about the U.S. labor market. Following the awful February data, however, and along with other recent labor market indicators, **the March data do at least put to bed concerns that the labor market had already entered recession.** We have written that we would not get excited about a good job growth figure unless it was broad based, specifically going beyond education and healthcare, the two sectors that have accounted for more than 100% of job growth over the past year. Here, there is some good news. Over the last three months, education and healthcare (red in Figure 1) have averaged growth of 56,000 while all other sectors (blue) have averaged 12,000. The latter figure is still weak, and an examination of Figure 1 shows it is far too early to declare an upward trend. It is, however, at least better than the negative figures that dominated between April 2024 through December 2025.

Figure 1: Job Growth in Education and Healthcare and All Other Sectors



An optimist could see the 12,000 figure as a sign of a real recovery in the labor market. If so, it is very tenuous and fragile. There are three important caveats from the March report. **First, eventual revisions, which have been a huge problem for the establishment survey, could still push 1Q job growth outside education and healthcare back negative.** Second, much of the strong March data is a bounce back from the awful February report which was revised downwards from -92,000 to -133,000 (and from -58,000 to -91,000 outside healthcare and education). Finally, the household survey remains poor. The household survey is noisier than the firm survey and we should ignore the January data which included a large downward adjustment

to the population, which passed through to the labor force and employment. For the last two months, the household survey has shown declines of 378,000 to the labor force and 249,000 to employment. This has taken the labor force participation rate to 61.9%, its lowest level since November 2021. The 249,000 decline in employment is not believable, such a decline would show up elsewhere. Nevertheless, this half of the labor market data has been poor all year.

Overall, the labor market is about where we thought it was just before the February employment report came out. Job growth is stagnant and limited to a few recession proof sectors. **We remain in a waiting game around whether hiring will see a sustained recovery before layoffs start to rise.**

Other Developments in Macroeconomics:

1. The big question is how this labor market will respond to the headwinds of the Iran war and a more hawkish Fed that is poised to make a policy mistake by moving too slow (more on this later). Before the March employment report came out, a new survey from the National Association of Business Economists found that “just under half of the economists put the likelihood of a recession just below 50%.¹” **Before the jobs report, we were at two-thirds chance of recession, with the March report, and other data, now pushing us back down to 60%**, still above the consensus but not by as much as a month ago.
2. While the labor market data were a relief, the GDP growth outlook continues to weaken. After 4Q2025 GDP grew by just 0.7%, the Atlanta Fed’s public model now predicts just 1.6% for 1Q2026. It initially expected 3.1% growth which partly reflected hopes that 4Q2025 growth was artificially low. This has not materialized. Consumption is forecast to grow at 1.4% and housing is set for yet another decline. **Furthermore, the tepid forecast is only starting to incorporate the impact of the war in Iran, which will slow growth both through higher energy prices and higher uncertainty.** We reiterate that when GDP growth has previously outpaced employment growth, it is usually the former that slows. This seems to be happening again.
3. Despite President Trump’s claim that the war with Iran will end in a matter of weeks, we expect the economic effects to continue through most of 2026. Given this, the ongoing surge in yields is unsurprising. What is surprising, however, is that over the past month, bond market’s implied neutral rate (calculated based on 5-10 year Treasuries) have risen from 347 bps to 370 bps, reversing a long decline. The Fed has aided this change by making its position more hawkish, including with some members suggesting that its next move could be a hike. This is very unlikely. Also, the FOMC did up its forecast of neutral in March from 300 bps to 310 bps, although this consisted of just a couple members

¹ Robb, G. April 2, 2026. “[The Outlook for the U.S. Economy is a Lot Worse than Just Two Weeks Ago, Economists Say.](#)” *Marketwatch*.

upping their forecasts. Bond markets are, however, making a mistake. The Fed is set to move slower, and again fall behind the curve, and we now expect the Fed to hold steady until September. **Furthermore, we now expect that it will take until 3Q2027 to reach our long-term targets of a 250-275 Federal Funds rate and a 340 bps ten-year yield.** Nevertheless, there remain no reason to expect that neutral has moved significantly, especially because of Iran. The best evidence continues to suggest a neutral rate of 290 bps.

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