The following are excerpts from two online articles in recent weeks, one from Reuters , (August 26th), detailing the Federal Reserve's current priority to protect the labour market , and the other from EconoTimes (September 1st), reporting projected employment data likely to impact the Fed's policy shift . All content is referenced in detail below.

Following the Federal Reserve's Jackson Hole conference, attention this week shifts to the US labour market and its influence on Federal Reserve policy, now that inflation is under control. We will also examine the projected US employment data set for release this week and its likely impact on near term monetary policy.

With the Fed's shift to job market risks done, policy now has to catch up.

Reuters (2024) determines the Fed's resolve to address emerging job market risk in the US, as its top priority, and asks if rising unemployment is simply evidence of an economy settling into a phase of steady growth or an issue of greater concern.

In 2022, when the Federal Reserve's focus shifted to combating inflation, it had to ratchet up interest rates fast to get monetary policy caught up with fast-rising prices. Two years later, the focus has changed again - this time to protecting the job market, as outlined in Fed Chair Jerome Powell's speech on Friday at the U.S. central bank's annual Jackson Hole conference in Wyoming. A policy catch-up again appears to be needed - in the other direction, albeit at a likely less frantic speed.

Powell's signal of coming rate cuts completed a Fed shift that began in January when it acknowledged emerging job market risks, and now it has made countering them its top job. The open question: Is a weakening job market and rising unemployment rate evidence of an economy settling into a healthy place of steady growth with little upside risk to the jobless rate or part of a slide that will gather speed? The answer will appear in upcoming employment reports and shape how far and fast the Fed will have to cut rates to prevent what Powell called an "unwelcome further weakening in labor market conditions."

"We do not seek or welcome further cooling in labor market conditions," Powell said, remarks that seemed to set the current 4.3% unemployment rate as a level he would like to defend as he made the sour admission that "conditions are now less tight than those that prevailed before the pandemic."The jobless rate was 4.1% and falling when Powell became Fed chief in 2018, falling as low as 3.5% in 2019 without raising inflation concerns - conditions Powell said he hoped he could recreate after COVID-19 threw the economy into a tailspin.

Reuters (2024)

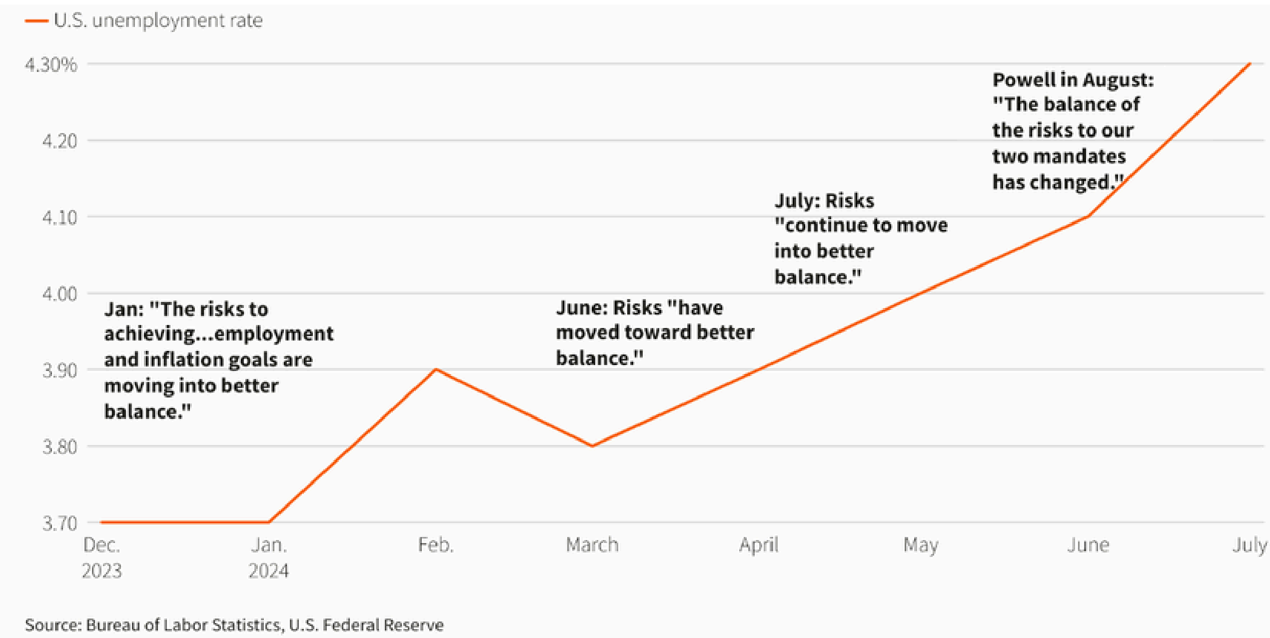
The current 5.25%-5.50% Fed policy rate is seen as restricting the economy and putting jobs at risk and is well above officials' median estimate of 2.8% for the longer-term "neutral" rate. Assuming inflation continues ebbing towards the Fed's 2% target, job market changes will determine how fast officials head toward that neutral level and whether they need to go even lower to restore full employment. "We're definitely cooling, but are we cooling to a point where we're going to level out ... or is this just a pit stop to a stronger cool down?" Nela Richardson, the ADP Research Institute's chief economist, said on the sidelines of the Jackson Hole conference. Richardson, along with many Fed officials and others in attendance, argues the economy remains strong and is likely just settling to its underlying trends - "normalizing" from the pandemic's extremes. But the sense of urgency around employment has intensified.

Looking at the balance of the Fed's dual mandate re inflation and employment, Reuters (2024) makes the point that as the US jobless rate rose this year, the Fed steadily shifted its risk assessment. As inflation fell, concerns grew over the Fed's other objective of maintaining maximum employment while stabilizing prices:

THE SHIFT

The Fed's two-year battle against inflation saw rates rise to a quarter-of-a-century high without any appreciable job-market fallout. Fed officials will next meet on Sept. 17-18 on a very different footing than just a few weeks ago as they prepare to cut rates and debate whether the job market is just slowing or at a precipice. The Fed's language around risk began steadily changing this year.

Rising unemployment, rising risk:



Until January, Fed policy statements said officials were "highly attentive" to inflation risks. Then that month it said "the risks to achieving its employment and inflation goals are moving into better balance." They said in June that the risks had "moved toward better balance" and in July that the risks "continue to move into better balance," adding they were now "attentive" to both the job market and inflation. Powell's remarks completed the journey, saying "the balance of the risks to our two mandates has changed" and policymakers would "do everything we can to support a strong labor market".

Reuters (2024)

NOW COMES THE CATCH-UP!

In September, officials will update interest rate projections showing their sense of the pace of cuts to come. As recently as June they were still worried about sticky inflation, saw the unemployment rate steady at 4%, and anticipated just a single quarter-percentage-point rate cut this year. Ian Shepherdson, chief economist at Pantheon Macroeconomics, who has been predicting a job market slide, called Powell's tone "startling" relative to June's outlook, taking it as evidence the Fed had "waited too long" to shift.

Torsten Slok, chief economist at Apollo Global Management, meanwhile, frets that with layoff rates remaining low, the Fed may still court inflation risk if it cuts rates too fast.

'VERY DIFFERENT PICTURE'.

The Fed is having its own data battles.
The gain of just 114,000 jobs in July was noticeably weaker than the pandemic-era average, but in line with what before the pandemic was considered a reasonable pace to match population growth. Another closely watched metric, the ratio of open jobs to unemployed persons, has fallen from a historic high of 2-to-1 during the pandemic to 1.2-to-1, akin to pre-pandemic levels in another sign of the economy normalizing. Powell on Friday even somewhat downplayed the 4.3% unemployment rate, regarding it as a result of rising labor supply and slowed hiring, not outright job losses. There is "good reason to think that the economy will get back to 2% inflation while maintaining a strong labor market," he said.

Boston Fed President Susan Collins said in an interview she sensed there was an "overall resilience" in the labor market, with the unemployment rate possibly about to level off. "What I have seen is some evidence of plateauing," she said, "not a 'blowing through.'"Still, there are concerns the labor market may be weaker than it seems, risks that could play out in coming months and push the Fed towards faster or deeper rate cuts to defend its "maximum employment" objective.

Reuters (2024)

US Jobs Data to Guide Fed's Next Move on Interest Rate Reductions.

A rate cut in the US for September is now widely expected. Ahead of this, EconoTimes (2024) has emphasized a Bloomberg report that provides Federal Reserve policymakers with deeper understanding of the possible extent and range of interest rate cuts, which will be based on pending monthly payroll reports due later this week.

Federal Reserve officials are set to assess upcoming US labour market data, including the August payrolls report, to determine the necessity of additional interest-rate reductions amid rising inflation.

In a recent report by Bloomberg, Federal Reserve policymakers will gain insight into the necessity for additional interest-rate reductions in the following readouts on the US labour market, such as the monthly payrolls report, following an all-but-certain cut in a little over two weeks. Chair Jerome Powell has predicted a September rate cut and stated that officials "do not seek or welcome" additional cooling in the labour market despite inflation still progressing at a rate that exceeds the Federal Reserve's objective. In the preceding weeks, government data indicated that the unemployment rate had reached its highest level in nearly three years and that job growth in July was less than anticipated.

According to the median estimate of economists in a Bloomberg survey, the August employment report is anticipated to indicate that payrolls in the world's largest economy increased by approximately 165,000 on September 6. While surpassing the modest 114,000 increase in July, the average payroll growth over the past three months would decrease to slightly more than 150,000, the lowest level since the beginning of 2021. The unemployment rate will likely decline from 4.3% to 4.2% in August.

July Job Vacancy Data to Signal Labor Market Trends Ahead of Key Fed Decision.

The government will release July job vacancy figures two days before the report on September 6. The number of open positions, a metric for labour demand, is anticipated to be at a three-month low of 8.1 million, just above the low that has endured for over three years.The Federal Reserve closely monitors the number of vacancies per unemployed worker, which is presently at 1.2. This figure is comparable to pre-pandemic levels and indicates that labour demand is approximately in equilibrium with supply. The ratio was 2 to 1 at its highest point in 2022. The job openings report also contains information on discharges and layoffs. Any substantial increase could further exacerbate Fed officials' concerns about a weakening labour market.

Labour-related reports released during the forthcoming holiday-shortened week include the ADP Research Institute's August snapshot of private payrolls and weekly jobless claims.

EconoTimes (2024)

References:

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