



The Daily Dish

June Jobs – Prelude to a Rate Cut?

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Friday the June [jobs report](#) showed top-line employment creation of 206,000 jobs, a tick upward for the unemployment rate from 4.0 to 4.1 percent, and year-over-year growth in average hourly earnings of 3.9 percent. In the aftermath there was a spate of stories suggesting that the Fed [would cut](#) rates in September. Does that make sense?

As nicely documented ([here](#) and [here](#)) by Fred Ashton, the employment report was weaker and is part of a pattern of weaker incoming economic data. Does that clinch the case for lower rates? No. Weakening is exactly what the overheated U.S. economy needed, exactly what the Fed has been trying to accomplish, and should be no surprise.

Moreover, weaker does not mean weak. The [GDPNow](#) estimate of 2nd quarter growth in gross domestic product stands at 1.5 percent, which would mean that the economy decelerated exactly not at all during the past three months. And inflation is not exactly cooperating with a quick rate cut. Core personal consumption expenditure inflation is at 2.6 percent year-over-year and has dropped by only 0.3 percentage points in the past six months, while core consumer price index inflation is down only one-half a percentage point at 3.4 percent. Inflation is far from gone and consumers expect it to continue. The latest one-year expectations from the New York Fed [survey](#) remain above 3 percent.

Finally, the Federal Open Market Committee hardly appears united by a desire to quickly cut rates. The [minutes](#) of the latest meeting noted:

Several participants observed that, were inflation to persist at an elevated level or to increase further, the target range for the federal funds rate might need to be raised. A number of participants remarked that monetary policy should stand ready to respond to unexpected economic weakness. Several participants specifically emphasized that with the labor market normalizing, a further weakening of demand may now generate a larger unemployment response than in the recent past when lower demand for labor

was felt relatively more through fewer job openings.

In other words, some are prepared to raise, some are prepared to stay on hold, and some are ready to cut. Not exactly a consensus.

On the merits, this hardly looks like a rock-solid case for a September cut. A final consideration is politics and the fact that it is an election year. The Fed will be loath to generate any impression it is affecting the election outcomes. It can pre-emptively cut easily in November in pursuit of a soft landing. It will take a dramatic deterioration in the data to prompt it to cut before the election.