The Daily Dish

The Labor Market and the Fed

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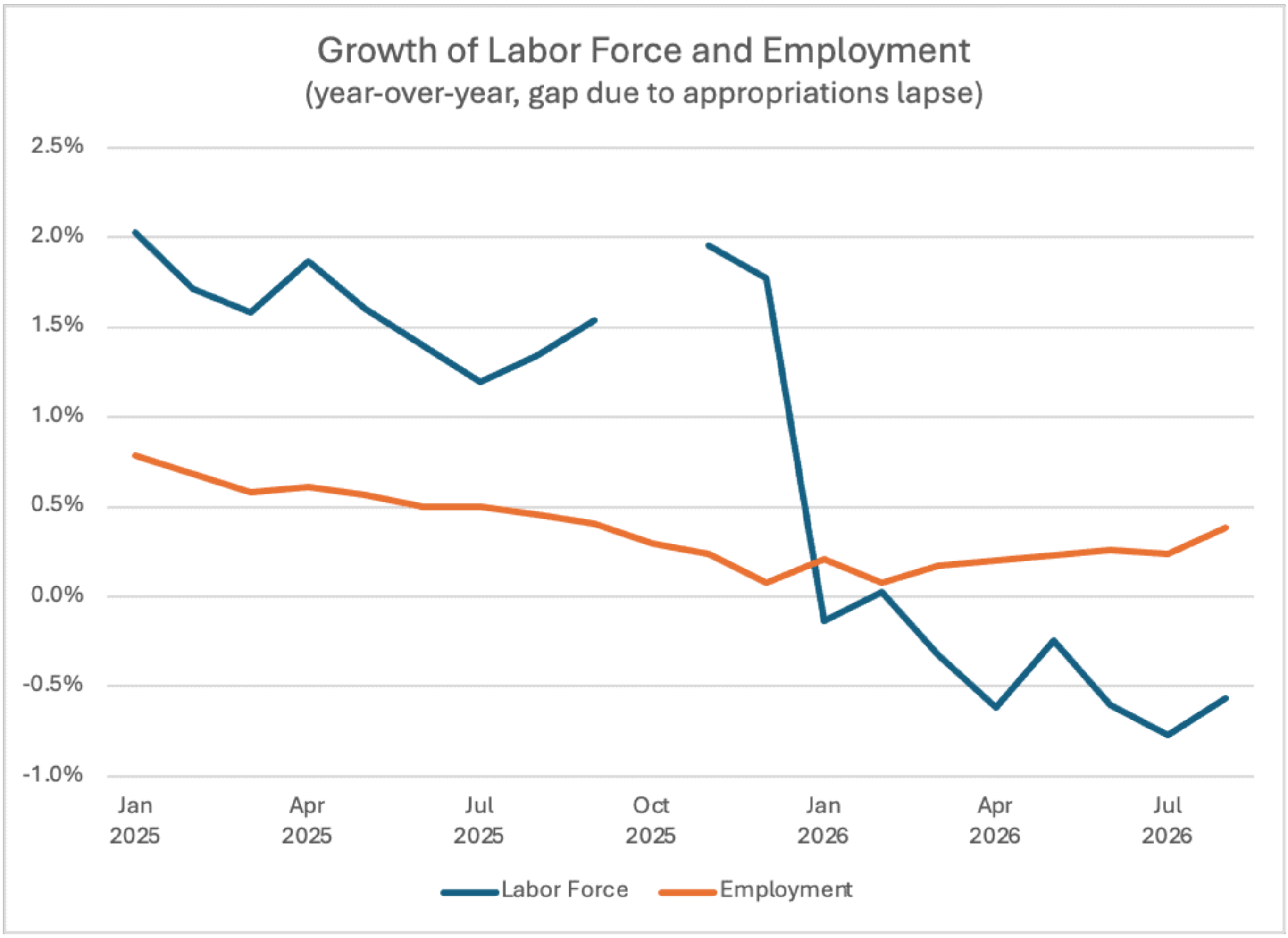
Friday the Bureau of Labor Statistics released the employment report for August. Taken at face value, it was a blockbuster. The establishment survey featured creation of 162,000 jobs. The household survey showed an unemployment rate at 4.1 percent, a rise of 683,00 in the labor force due to a 0.2-percentage-point rise in the participation rate, and an increase in 569,000 in employment.

The weak link in this picture is the growth of average hourly earnings. In August, the growth rate was 3.2 percent (at an annual rate), not enough to compensate for inflation – a pattern in recent months.

Of course, one should never place too much weight on a single month's data. After all, last month featured a decline in employment (now revised to an increase of 21,000). Still, over the past year job creation has averaged 50,000 per month. Because the growth of the labor force has dropped so sharply (see graph below), it has taken relatively few jobs to keep the unemployment rate near 4 percent.



The data to date should make the Federal Reserve's (Fed's) decision making easier. The job growth is adequate to satisfy the Fed's employment mandate, allowing it to focus on the inflation mandate. With inflation well north of the 2 percent target, the Fed should move quickly to raise interest rates and tighten financial conditions.

Of course, the Fed's job is complicated by the president's unhinged post on Truth Social this past Friday demanding that the Fed cut interest rates. Seemingly, the only way out of this dilemma is an unexpectedly soft report on inflation when the Consumer Price Index is released on Friday.