Jobs Report Shows No Pressure on Fed to Raise Rates

For all the inflation worriers chafing at the bit for a rate increase, the October jobs report shows why the Federal Reserve will be on the sidelines for a long time.

On Friday, the government reported payroll losses came to 190,000 in October, after a revised drop of 219,000 the prior month. The relative moderation in job losses was about the only good news the report could offer. The rest was a tale of woe.

At 10.2%, the unemployment rate is at its highest point since April 1983. It is also near the top end of what’s seen as the high point of joblessness in the U.S.: Fed officials, in their last publicly available forecast, projected a 10.1% unemployment rate peak. More nastiness: As of October, some 2.4 million workers are marginally attached to the labor force, up 736,000 from a year ago; those working part-time involuntarily totaled 9.3 million, and there are 808,000 discouraged workers, up 484,000 from a year ago.

Then there’s the matter of the broadest measure of unemployment produced by the government, known as U-6. It captures those who are unemployed, marginally attached to the labor force, and those working part time because they have no other option. This measure stood at 17.5% in October, from 17.0% the month before, and shows the underlying nature of hiring in the U.S. is pretty bleak.

The bleak state of employment in the U.S. shows a weak economy, no matter how much improvement there’s been in overall output and financial markets. As long as hiring is depressed, wage pressures are unlikely to build and inflation should be contained. That means the Federal Reserve, which kept its overnight funds rate target near zero this week, has no reason to push it up soon. The equation is simple: no inflation, no reason for the Fed to move.

“The unemployment rate will remain too high and inflation too low to justify such a move by the FOMC next year,” said Larry Meyer, of forecasting firm Macroeconomic Advisers. The former Fed governor added, “We still anticipate that it will be mid-2011 by the time conditions have improved enough to warrant an exit from the Fed’s near-zero funds rate policy.”

Most economists see a slow recovery for the jobs market, which underscores why the central bank faces so little reason to act. “The U.S. economy is still not expanding rapidly enough to generate net gains in employment,” said Paul Ashworth, of Capital Economics. “This recovery is shaping up to be a “jobless” one,” he added.

Of course, a steady Fed as measured by the central bank’s monetary policy stance need not be an inactive central bank. The institution’s various emergency lending programs are winding down. As the recovery progresses, the Fed will eventually have to deal with the difficult issue of when rates should rise, because it may need to make the move before inflation starts to mount.

There’s also a rising current of worry that rock-bottom monetary policy may be creating new types of asset bubbles. Officials are now more mindful of this problem given their recognition of the role rate policy played in fueling the housing bubble. It’s possible developments in financial markets could force a rate hike even when traditional economic variables argue against it.