Weak Jobs Report May Kill Interest Rate Hike For This Year

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By Marilyn Geewax

If you were betting that the Federal Reserve would soon raise interest rates, you may have lost your money Friday when the Labor Department released its September employment report.

The hiring and wage data came in well below economists' expectations. Only 142,000 jobs were created, falling far short of consensus forecasts of about 200,000. The unemployment rate held steady at 5.1 percent, but the number of people in the labor force slid by 350,000 and hourly earnings dipped by a penny, to $25.09.

Such weakness suggests the U.S. economy could be losing momentum at a time when risks are rising from China's slowdown and our own political dysfunction. If the economy lost steam, then the Federal Reserve may be less willing to cool it further by raising interest rates to discourage borrowing.

The central bank has been holding rates near zero for years to encourage people to buy cars and homes. This year, it has been watching for signs that the economy has gotten the stimulus it needs and that it's now time to return rates to more normal levels.

Just two weeks ago when the Fed policymakers met, they decided to hold off on a rate increase. But they hinted they might act this year if data showed an uptick in growth.

The September jobs report smothered that idea.

With such slow job and wage growth, "the earlier rationale for raising rates has now lost some validity," Nariman Behravesh, chief economist for IHS Global Insight, said in his analysis.

Bill Spriggs, chief economist for the AFL-CIO, a labor organization, was a lot more emphatic.

"There can be no interest rate increase until we see persistent real wage growth that can sustain a family," Spriggs said in a statement.

In the bond market, investors agreed, pushing down the 10-year Treasury yield to less than 2 percent for the first time since April.

But a single jobs report isn't the only thing weighing on the Fed's mind. These factors also would argue in favor of leaving rates unchanged this year:

Weak commodity prices. China had been growing so quickly in recent years that it had been gobbling up raw materials, such as oil, copper, zinc and iron ore. But this year, China is slowing down — and hurting U.S. commodity producers, as well as manufacturers like Caterpillar that make equipment for mining, drilling and farming.

Strong dollar. The value of the dollar has been rising this year, making it harder for U.S. manufacturers to compete. Last month, factories cut 9,000 jobs. Higher interest rates likely would make the dollar even stronger and further hurt U.S. exports.

The debt ceiling. On Thursday, Treasury Secretary Jacob Lew warned that the U.S. would exhaust its ability to borrow on Nov. 5 unless Congress increases the debt ceiling. But with the House Republican leadership in flux, it's unclear how smoothly Congress will handle that responsibility.

The budget crisis. This week, Congress approved a temporary budget extension that expires in December. Unless lawmakers can settle on a spending plan, there's a risk the government could shut down just before Christmas.

Still, the U.S. economy has a lot of strengths. For example, consumer demand has been growing, especially for vehicles and homes. Demand for high-tech workers remains strong and many industries, including travel, leisure and health care, have been hiring.

Some Positive Numbers

The September jobs report had bad headline numbers, but also some upbeat figures. For example, the number of part-time workers seeking, but unable to find, full-time employment plummeted to 6.04 million, the lowest level in seven years.

And the average number of weeks unemployed dropped to 26.3, the fewest since August 2009.

Bernard Baumohl, chief economist for The Economic Outlook Group, predicts that in light of the September jobs report, a rate hike is now off the table for October, but maybe not for 2015.

"We still believe there's a better than even chance they will lift rates at the December meeting once the dust settles and more data arrives confirming the economy in much better shape than the preliminary September jobs report suggests," **Baumohl** said.