TheStreet

What's the Fed's Magic Number for Jobs?

A jobs report like the last two might force the Fed's hand in September, but any bad news would be a fresh excuse to wait before hiking rates

Tim Mullaney August 30, 2016

For most of the next month, Wall Street will be asking how good jobs numbers have to be for the Federal Reserve to raise interest rates. The two monthly snapshots of the labor market coming this week will give only part of the answer -- how good jobs numbers were in August.

The report on private-sector hiring from payroll-processor ADP arrives Wednesday and the Labor Department drops the official jobs report on Friday morning. Consensus estimates say the overall economy added 189,000 jobs and that the national unemployment rate dropped to 4.8%, according to a survey by *Dow Jones & Co.*

If the report is better than that -- something more like the last two months, which averaged 247,500 jobs -- then the Fed likely will and should boost the federal funds rate by a quarter of a percentage point, said **Bernard Baumohl,** chief U.S. economist at the Economic Outlook Group and an adjunct professor at Florida Gulf Coast University. If it's closer to the forecast, the likelier bet might be for the slow-on-the-draw central bank to wait for more data before considering a hike in December.

"You can't keep saying you're data-dependent and then ignore the data," **Baumohl** said. "The case is strongest if you get a very large increase in payrolls."

At this point, the labor market has more or less reached most targets that investors inferred from Fed Chair Janet Yellen's insistence on using a broad array of measures, from underemployment to wage growth, to gauge the health of labor markets. Debate on when to move rates higher has turned instead to discussions of whether inflation is too low.

The economy only needs about 75,000 jobs a month to sustain the unemployment rate at its current 4.9%,_Point72 Asset Management chief economist Dean Maki said, and many economists think its natural rate of job creation each month is about 150,000 to 160,000 this late in the expansion. Absent a tick upward in labor force participation, monthly totals in the mid-100,000s would pull the unemployment rate down to 4.4% by late this year, Maki says.

That has markets moving sharply toward predicting that the Fed will pull the trigger at September's meeting -- but they're not all the way there. Futures prices put the odds of a rate hike at 33% -- 15 percentage points higher than they were before Yellen's Friday speech, in which she said "the case for an increase in the federal funds rate has strengthened in recent months." Odds that the Fed will boost rates at least once by December jumped 7 points to 61% on Friday, according to the Chicago Mercantile Exchange's *CME Fedwatch*.

"There were too many [new jobs] in June and July," said Joel Naroff, president of Naroff Economic Advisors, who predicts the economy added 168,000 jobs and reached a 4.8% unemployment rate. "But 168,000 would be amazing after those two months. I would not be surprised if the number is closer to 100,000 to 125,000."

Manufacturers like General Motors and General Electric probably shed 9,000 jobs last month, Regions Financial chief economist Richard Moody estimates. Better results are likely from retailing and eating and drinking establishments, where store chains like Wal-Mart and restaurant companies from Starbucks **to** McDonalds are benefiting from the second-quarter's pop in consumer spending, which rose at an annual 4.4% rate.

Traders should avoid betting too heavily on any conclusions about Friday's report, because August jobs data is often revised -- by a lot -- in later months, Moody says. One reason: The surveys on which the jobs reports are based have lower-than-normal response rates in the summer, and Labor Department statisticians correct them in the fall.

That statistical uncertainty could feed into the central bank's increasingly criticized reticence about raising rates at all, Moody said. Officials might just discount the news and wait for December anyway. Or, if the number comes in around 100,000, they could decide for the umpteenth time that the economy is still too weak for tighter money, Naroff added.

"Yes, there is now a decidedly more hawkish view of monetary policy coming out of the Fed," Naroff said after Yellen's speech. "But that has happened before when conditions had improved. However, the sudden appearance of any issue of any kind has sidetracked the Fed."

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