MarketWatch

Jobs report for October to set stage for final act in Fed interest-rate drama

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More hiring expected to pull unemployment rate below 5% again

he lights are on. The stage is set. But don't expect the Federal Reserve to engage in the act of raising interest rates just days before voters choose between Hillary Clinton and Donald Trump.

The keepers of U.S. interest rates have hemmed and hawed about acting for the past year. They got a big go-ahead sign last week after economic growth accelerated to 2.9% in the third quarter, the best performance in two years. That was much better than the barely 1% growth in the first half of 2016 — even if a spike in soybean exports exaggerated the recent improvement.

The Fed will get another cue with this week's report on how many new U.S. jobs were created in October.

Economists think it will offer another reason for the central bank to raise the cost of borrowing for consumers and businesses: A strong gain of around 195,000 jobs that knocks the unemployment rate down below 5% again, according to the MarketWatch forecast.

Even that probably won't be enough, however, to get the Fed to move.

Almost all of Wall Street expects officials to wait until December to avoid a scenario in which the Fed because an unwitting last-minute star — or villain — in a very bitter presidential election.

Whatever the case, one thing is clear. The plow horse U.S. economy plods forward at a pace that should ensure a steady increase in new jobs through the end of the year, especially with job openings at a record and companies complaining of a skilled-worker shortage.

The U.S. has created an average of 178,000 new jobs a month so far in 2016, perhaps twice as much as the economy needs to soak up all the new people entering the labor force — high school and college grads, new immigrants, mothers returning to the workforce.

The "latest employment figures show employers are struggling to fill more than 5.5 million positions," said **Bernard Baumohl, chief global economist of The Economic Outlook Group.** "Nor is job security particularly worrisome. Layoffs are at their lowest levels in nearly half a century."

A tighter labor is also nudging paychecks higher.

Many companies have to pay a bit more to attract or retain workers. From September 2015 to September 2016, hourly pay rose 2.6%, just a notch below the postrecession high set during the summer.

If that keeps up, wages are likely to feed into inflation and push it close to 2%, putting it within the Fed's comfort zone.

The drumbeat of hiring and somewhat bigger paychecks aren't making their way to everybody, though. Millions of Americans who want a full-time job still can't find one, raising the specter of a so-called skills gap in which these people are unlikely to find lucrative work.

"We have a structural problem with unemployment," said Joseph Brusuelas, chief economist at consulting firm RSM. "Some people between 20 and 50 don't have enough skills" for the modern economy.

The plight of those Americans is why some inside and outside the Fed urge the central bank to let the economy run "hot." In other words, let it grow and put inflation worries aside until many more people sitting on the sidelines are drawn back into the labor force.

In investing, giving in to your emotions can cut your return by about 1.56 percentage points a year. Should you leave the job to an emotionless robo adviser instead?

That's a debate that will play out in the future. The employment report and Fed policysetting meeting aren't the only events on a chockfilled economic agenda this week. Auto sales and construction spending are likely to show that consumers are still looking to buy new cars or houses. The U.S. trade deficit probably fell sharply in September, government figures are expected to show.

Yet manufacturers are still struggling to grow, an ISM survey is expected to report, and productivity remains weak.

Even if the economy is doing OK in the short run, the lack of productivity growth is a longer-term danger. Only higher productivity of American workers and businesses can deliver bigger paychecks and fatter profits needed to get the economy back to its historical growth rate of 3.3%.

The economy has stumped along since 2010 at a 2% rate, but it probably won't reach that mark in 2016 despite the third-quarter rebound. The economy is now on track for 1.9% growth this year.

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