REUTERS

# Analysis-Weak August U.S. jobs report throws doubt on Fed taper

By Howard Schneider, Ann Saphir

September 3, 2021

WASHINGTON (Reuters) - The weak U.S. jobs report for August complicates what had seemed a clear path for the Federal Reserve to begin trimming its bond purchases, undershooting the expectations of the central bank's most hawkish members and signaling the coronavirus Delta variant has begun to affect the recovery in a meaningful way.

Over the past week, Fed officials who argued most vocally that the central bank should soon begin paring its $120 billion in monthly bond purchases linked that policy change to an August jobs report that continued the average gains of 876,000 additional positions added from May through July.

Others said they were confident the economy's performance had increasingly disconnected from the virus, and would weather the current surge in cases.

The August report, released on Friday, showed 235,000 jobs were added - the weakest outcome this year. This challenges some of the Fed's core narratives as the surge in COVID-19 cases appeared to hit firms like restaurants that bore the brunt of the pandemic's impact last year and have the furthest ground to make up.

Closely watched margins on labor force participation and jobs progress for women and Blacks showed little change, a blow to the Fed's hope this for a "broad and inclusive" labor market recovery.

“September and October are going to be white-knuckle months for households, employers and the Federal Reserve,” **The Economic Outlook Group’s Bernard Baumohl** wrote in a note.

“How the economy performs those two months will determine whether the Fed begins to taper this year or in 2022,” extending the start of a process Fed chair Jerome Powell and others had, even as of last week, anticipated would begin this year.

Far from clearing the way for that process to start, the August report keeps alive the risk that the Fed may be heading for a tough and confrontational choice between its new commitment to a broad labor market recovery and its traditional promise to keep inflation controlled.

‘DELTA WRITTEN ALL OVER IT’

Inflation is currently running about twice the Fed’s 2% target. Policymakers expect that to ease on its own, leaving them time to let job growth continue and reach full employment before any interest rate increases are needed to temper the pace of price increases.

Weak job growth now challenges that assumption, as well as the Fed’s faith that the newly surging virus will not derail continued economic recovery. If the problems in the labor market had been chalked up to supply issues, with unemployment insurance or child care troubles keeping people from working, August adds weak demand in some of the sectors that defined the pandemic downturn last year.

“Today’s report has the Delta variant written all over it. It is clear that the recent surge in COVID-19 cases is a strong headwind to the labor market,” said Nick Bunker, economic research director for hiring site Indeed. “The wind is not so strong that it stopped all progress. The underlying momentum is still there. We just have to see if we can keep up the pace until this surge is behind us.”

Until it is, and job growth rebounds, it may put any Fed policy shift in limbo.

The Fed continues to buy $120 billion worth of Treasury bonds and mortgage backed securities each month, a program it began in the spring of 2020 to stabilize financial markets at risk of crashing because of the pandemic. The Fed in December said it would not reduce the amount until the economy had made "substantial further progress" towards regaining what at that point was still 10 million missing jobs and restoring inflation to the Fed's 2% target.

As of now the number of missing jobs is still 5.3 million.

"Today's report should give the doves on the Federal Reserve's board...some fodder for postponing," announcement of plans to reduce, or "taper," the bond buying, said Rick Rieder, BlackRock's chief investment officer for global fixed income.

###