Financial FAQs

Employment Report Won't Cause Fed to Raise Rates

By **Harlan Green** / Special to CASA

UNEMPLOYMENT FALLS BELOW SIX PERCENT for the first time since 2008 as U.S. adds 248,000 jobs said MarketWatch's headline at the release of the Labor Department's September unemployment report. But it won't be enough to push Janet Yellen's Federal Reserve to begin to raise interest rates sooner than next year.

Why? Because wages aren't rising at all. The Bureau of Labor Statistics said, "Average hourly earnings for all employees on private nonfarm payrolls, at $24.53, changed little in September (–1 cent). Over the year, average hourly earnings have risen by 2.0 percent. In September, average hourly earnings of private-sector production and nonsupervisory employees were unchanged at $20.67."

And Chairperson Yellen has said that stagnant wages are a sign that there are still too many people out of work. According to the BLS, there are 2.954 million workers who have been unemployed for more than 26 weeks and still want a job. This was down from 2.963 in August. While this is trending down, it is still very high.

And the number of persons employed part time for economic reasons (sometimes referred to as involuntary part-time workers) was little changed in September at 7.1 million. These individuals, who would have preferred full-time employment, were working part time because their hours had been cut back or because they were unable to find a full-time job.

Calculated Risk does an excellent analysis of the underlying reasons wage growth has been so meager. One reason so many are still out of work is the drop off in government employment. In September 2014, state and local governments added 14,000 jobs. State and local government employment is now up 143,000 from the bottom, but still 601,000 below the peak.

"Clearly state and local employment is now increasing," says Calculated Risk's Bill McBride. "And Federal government layoffs have slowed (payroll decreased by two thousand in September), but Federal employment is still down 25,000 for the year.

As a comparison to other presidential terms, Calculated Risk compared government hiring during both Republican and Democratic administrations.

"The public sector grew during Mr. Carter's term (up 1,304,000)," says Calculated Risk, "during Mr. Reagan's terms (up 1,414,000), during Mr. G.H.W. Bush's term (up 1,127,000), during Mr. Clinton's terms (up 1,934,000), and during Mr. G.W. Bush's terms (up 1,744,000 jobs)."

However, the public sector has declined significantly since Mr. Obama took office (down 710,000 jobs). These job losses have mostly been at the state and local level, but more recently at the Federal level. This has been a significant drag on overall employment, notes Calculated Risk.

Much of government unemployment was due to falling revenues from the Great Recession, but much also from the political opposition to more New Deal type government stimulus spending. In spite of that, the U.S. has done much better than Europe with its austerity policies that have led the EU into a third recession just since 1980. So we seem to have learned something from Great Downturns that Europeans have yet to learn. Policymakers must not weaken government programs and policies that create growth and jobs during Great Recessions or Depressions.

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