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Why a Good Job Market Isn't Enough to Satisfy the Fed

The jobs market is experiencing a natural slowdown. The biggest risks to the economy are elsewhere

By Justin Lahart

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Jobs growth is slowing, but that could have less to do with the risks that are bearing down on the economy than with the tightness of the job market itself. It is part of what makes the Federal Reserve's jobs so difficult.

The Labor Department reported that the economy added 136,000 jobs last month, a bit shy of economists' expectations and below the monthly average of 177,000 over the previous 12 months. But after reports earlier in the week showing a worsening manufacturing slump and a cooling services economy, investors were bracing for worse. So stocks pushed higher at the open.

The troubles in manufacturing, which has been buffeted by trade tensions and slower global growth, were clearly reflected in the report. The sector lost 2,000 jobs last month, and has added just 41,000 through all of 2019. That compares with 188,000 in the first nine months of last year.

But so far that doesn't seem to be bleeding over into other sectors. While nonmanufacturing job growth has moderated, that might be more reflective of an environment where it is difficult to find workers. The jobs report showed that the unemployment rate fell to 3.5% from 3.7% a month earlier, matching a 50-year low. Indeed, with job growth still outpacing growth in the working-age population, the unemployment could drop even further.

The job market's performance probably counts as a relief to Fed officials, but they now seem likely to cut rates when they meet next month anyway. That is because jobs are one of the last things to go when the economy turns sour, with companies cutting back on other items, such as advertising and capital spending, first.

Moreover, companies have acted so cautiously since the financial crisis that they have little fat to cut in their workforces. As a result, they may not fire people unless they see an outright drop in demand. And at that point the economy might not just be at risk of falling into a recession, but already in one.



Jobs are one of the last things to go when the economy turns sour. PHOTO: JOE RAEDLE/GETTY IMAGES

So for the Fed, it isn't enough that the risks emanating from trade and abroad have been contained —policy makers need to see them dissipate. As long as those alarm bells keep ringing,

the Fed might keep on cutting.

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