

## The Fed's Jobs Dilemma

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Investors and market pundits call it “Jobs Friday” – the first Friday of every month when the Labor Department releases a batch of data about the previous month’s employment trends. The one number that gains the most chatter is the headline unemployment number, but that is just one piece of the puzzle and a sometimes misleading one. Well, today is Jobs Friday for September, and the last Jobs Friday before the Fed’s upcoming QE deliberations on September 17-18. What can we expect?

### *Fewer Unemployed, Fewer Looking for Work*

That headline number fell to 7.3%, which is the lowest it’s been since the dark days of December 2008. It’s the latest in a downward trend from a peak of 10% in October 2009. Good news, right? Not entirely. The unemployment rate shows the number of people in the workforce who don’t have a job, as a percentage of the total number of people in the workforce. The key phrase here is “in the workforce”. That’s the number of people who want to work – they either have a job or are actively looking for a job. But there are also working-age adults who look and look and finally give up looking. They are subtracted from the “in the workforce” population, and mathematically that can reduce the unemployment rate.

### *Jobs, Payrolls and the Workforce*

That “in the workforce” definition is important in the context of this month’s reading because the number of working-age American adults considered to be in the workforce is 63.2% - the lowest number since 1978. That is supported by another data point that comes out on Jobs Friday – the total non-farm payroll numbers for the month. The 169,000 jobs added in August was slightly below consensus expectations and below the 200,000 level that many economists see as a benchmark threshold for the economy to be able to sustain a long-term growth rate of more than 2.5%.

### *What Is a Job, Anyway?*

Payrolls reflect the number of people with what we would consider to be conventional jobs – i.e. a job where you get a W-2 form, are eligible for benefits and paid vacation and the like. It’s fairly clear from looking at payroll trends since the turn of the millennium that they are in structural decline. People who freelance or work on a 1099 contract basis also don’t show up on the payrolls – and these historically unorthodox means of earning a living are steadily becoming more of the norm.

### *Meanwhile, Back at the Fed*

The Fed has tied its stimulus programs to the health of the economy as measured by jobs, saying that unemployment should not be any higher than 7% when quantitative easing comes to an end, and around or below 6.5% before anyone starts thinking about raising interest rates. Of course the Fed knows that context matters, and the mixed picture provided by September Jobs Friday will figure into the discussions. We think it is still likelier than not that tapering will go ahead this month as expected. But it’s not yet a slam dunk, and not the time for large bets either way.

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