

WSJ Print Edition

Will Fed Rate Cuts Help the Job Market?

What's better for America's economy: lots of people having jobs or fewer people being jobless?

That sounds like two sides of the same coin, but the subtle difference suddenly matters to investors, not just pointy-headed economists. After a tepid report on hiring Wednesday, plus Thursday morning's ADP and jobless-claims data, Friday will bring more clues with reports on payrolls and unemployment.

Stock prices gyrate with interest-rate expectations, which is why this month's Fed meeting is being watched so closely: cheap money good, expensive money bad. Since the central bank's two official missions are full employment and price stability, the slight expected rise in the unemployment rate to 4.3% in August normally wouldn't spur interest-rate cuts.

But the number of people working might. The three-month average gain in nonfarm payrolls is at its lowest in 15 years, excluding the Covid-19 plunge. Unless Friday's number comes in way above estimates of 75,000, that won't change.

What kind of bad news would weak jobs numbers be for stock investors, though—"good" or "bad"? Anemic employment growth is a classic sign of a slowing economy that spurs the Fed to act. Unfortunately, it might not be the sort of thing rate cuts can fix this time.

Labor-force participation—the percentage of the U.S. civilian population either working or trying to—hasn't been so low, not counting the pandemic, since 1977.

A record number of Americans reaching the traditional retirement age of 65 this year, with many leaving the workforce sooner, has affected it. A recent wrinkle is the big drop in net migration: A higher share of immigrants is in the labor force than native-born Americans.

From investors' perspective, someone choosing to move abroad, or not come to America in the first place, is different. Unlike a retiree, they're neither working nor buying anything—lost economic activity.

Meanwhile, some immigrants' old jobs in fields like agriculture and construction aren't being filled despite continuing jobless claims remaining near a four-year high, putting more upward pressure on prices. Lower interest rates might spur things like home buying. They can't pick strawberries or put up drywall.

To the Fed, which carries an interest-rate hammer, every problem looks like a nail. It cut rates a year ago when unemployment was the same as today. Long-term interest rates, which affect things like mortgages, promptly rose instead of falling, and a key inflation gauge remains stubbornly high.

The chances of a cut this month are good, and they'll stay that way if job growth was weak in August. Brace for a similarly unwelcome reaction in the bond market.

There are some problems the Fed can't fix, and some it could make worse.

—Spencer Jakab