Job growth slows in August and unemployment rises as US Fed plans further interest rate increases

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The official US jobless rate ticked up to 3.7 percent in August as job growth slowed significantly. The economy added 315,000 jobs last month, down from 526,000 in July. Wage growth, meanwhile, slowed despite surging inflation.

The numbers indicate that the recent sharp interest rate increases by the US Federal Reserve are having their intended effect. The central bank is expected to raise its benchmark interest rate by another 0.50 to 0.75 percentage points when it meets later this month.

Federal Reserve Chairman Jerome Powell has pledged to use sharp rises in interest rates to collapse economic growth in order to drive up the unemployment rate. This is being done in the name of fighting inflation, which rose at an 8.5 percent annual rate in August. The Fed policy is based on the lie that "excessive" wage increases due to a tight labor market are driving price increases.

In fact, price increases have far outstripped wage growth, resulting in a 3 percent decline in real wages over the past year, according to the US Bureau of Labor Statistics. Hourly earnings rose just 0.3 percent in August over July, sharply lower than the 0.5 percent figure in July. A significant role in this wage suppression is being played by the unions, which have blocked strikes and imposed a series of sub-inflation wage increases on sections of workers ranging from teachers to health care and manufacturing workers.

Under conditions where workers are already suffering unprecedented declines in their living standards due to inflation, a rise in unemployment will create massive hardship. Despite recent declines, gasoline prices are up 44 percent for the year. Bread is up 13.7 percent, butter and margarine 26 percent, natural gas 30 percent and heating oil a staggering 75 percent.

Inflation is largely due to the disastrous response of the ruling class to the pandemic, which has resulted in the disruption of global supply chains. At the same time ruling classes all over the world have pumped trillions of dollars into the financial markets, vastly enriching the world's billionaires. On top of this, the US and NATO countries have expanded military spending, including subsidizing the proxy war against Russia in Ukraine.

Of course, the Fed chair did not say anything about surging profits and rampant price-gouging by energy companies and other monopolies. While inflation has devastated the living standards of workers, it has provided an opportunity for the further enrichment of the financial elite.

The relatively low unemployment rate and the so-called labor shortage are themselves largely a product of the pandemic, which has caused the exit of older, more vulnerable workers from the workforce and the death or disablement of millions more.

The rise in the August jobless rate was in part due to an increase in the number of workers reentering the labor force. The labor force participation rate, that is, the share of adults working or looking for work rose to 62.4 percent in August from 62.1 percent in July. There was, in particular, an increase in the participation rate among women ages 25 to 54. However, the labor force participation rate for black workers actually fell in August, to 61.8 percent, down from 62 percent in July. The unemployment rate for black workers rose by 0.4 percent, from 6.0 percent to 6.4 percent.

The largest job gains in August were again in the leisure and hospitality sectors, typically the lowest paying, which added 30,000 jobs. Manufacturing added just 22,000 jobs. Health care added 44,000. Construction added 16,000, despite a slowing housing market due to higher mortgage costs.

The rise in interest rates is expected to have its most severe initial impact in the construction industry and durable goods manufacturing, including auto production. Ford recently announced the layoff of 8,000 salaried workers.

In fact, 50 percent of employers plan layoffs in the next six to 12 months, according to a recent survey by PwC. This week, retailer Bed Bath & Beyond announced it is slashing 20 percent of its workforce and closing 150 stores. HBO Max, Peloton, Shopify, Re/Max, Walmart and Wayfair have all recently announced job cuts.

In the perverse world of capitalist economics, the rise in the unemployment rate and slowdown in wage increases are seen as positive developments. The *New York Times*, the standard bearer for so-called American liberalism, wrote Thursday, “Slowing job and wage growth, alongside rising labor force participation in August, is good news for President Biden and his hopes for a smooth transition to a more stable economic expansion.”

As far as the Federal Reserve is concerned, the August wage and jobs numbers are still too high. Fed Chair Jerome Powell in a speech August 26 at Jackson Hole, Wyoming, warned that the labor market will likely feel “pain” as a result of the continuing interest rate increases.

On Wednesday, Loretta Mester, head of the Cleveland Fed and a voting member of the Fed policy setting committee, said the central bank would likely raise interest rates above 4 percent by 2023 and hold them at that level. At the beginning of 2022 the key Fed rate was near zero.

Diane Swonk, chief economist at KPMG, quoted by CNN, spelled out the Fed policy bluntly: “It’s one thing to say that unemployment is unsustainably low, and it’s another thing to say we’re going to raise unemployment. They mean the same thing. ... Pain in the labor market is raising unemployment.”

There are other signs of an impending recession. The yield on longer-term 10-year US Treasury notes is lower than that for two-year notes, what is called an inversion. Normally, the interest on long-term notes is higher than for short-term notes. Typically, an inversion signals the expectation that economic growth will slow or turn negative.