How and when will the Fed's rate increases affect hiring?

Casselman, Ben . New York Times (Online) , New York: New York Times Company. May 6, 2022.

FULL TEXT

The Federal Reserve hopes to tame inflation and address an "out of balance" labor market without increasing unemployment.

The Federal Reserve is trying to cool off the red-hot U.S. job market. But it could be months before those efforts start to bear fruit.

The central bank said Wednesday that it would raise interest rates half a percentage point, the biggest increase in more than two decades, and begin paring its bond holdings in a bid to rein in inflation. In a news conference after the announcement, Jerome H. Powell, the Fed chair, cited the labor market, and in particular the record number of job openings relative to the number of unemployed workers, as a reason that policymakers had become more aggressive in recent months.

"You can see that the labor market is out of balance: You can see that there is a labor shortage," Mr. Powell said.

Higher interest rates should, in theory, result in less demand from both consumers and businesses, leading companies to post fewer jobs and hire fewer workers. Mr. Powell is hoping that will allow the labor market to rebalance without an increase in the unemployment rate.

But those changes won't be evident overnight. Interest rates take time to affect the economy, and there are reasons to think the process could take longer than usual this time around. Consumers, in the aggregate, are sitting on trillions of dollars in money saved during the pandemic, and many appear eager to spend it on long-delayed activities like travel. That could blunt the impact of the Fed's policies, said Michelle Meyer, chief U.S. economist for Mastercard.

"The buffer that's out there for the consumer is substantial, which means it may take longer to see the impact" of rate increases, she said. "The more resilient the economy is and the stronger it is, the higher the Fed will have to take interest rates in order to see that dampening of demand to depress inflation."

Still, interest rates will have an effect eventually, Ms. Meyer said. One of the first places that the Fed's actions are likely to show up is the housing market. Mortgage rates have risen significantly, leading to a steep drop in applications for new mortgages, and there are signs that sales have begun to slow. Construction activity —and construction jobs —won't respond as quickly, in part because of the longstanding shortage of homes for sale, but eventually building is likely to slow as well.

Manufacturing is also likely to feel the effect of higher rates. But the signals could be hard to interpret: Many economists already expected a slowdown in manufacturing this year as the pandemic recedes and consumers revert to spending more on services rather than goods.

DETAILS

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