



## **Employment Goes Up Again & The Fed Is Poised To Raise Rates**

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On Friday the Department of Labor reported that the economy generated 288,000 jobs in April. This was much more than anyone predicted or even hoped.

April's job gains were broad based, with every major sector posting gains. Notably, manufacturing added 21,000, and the largest increases were in business and professional services, where employment surged 123,000. Furthermore, March's robust gains were actually revised upward. The April report confirms the fact that job growth is finally back. The pattern emerging is that job gains tend to accelerate once employment growth consistently turns positive, and this seems to happen when weekly first-time claims for unemployment compensation fall below 325,000. This was the pattern in the 1992 recovery, and it is being repeated once again.

Despite the strong gains in new jobs, the labor market is still 1.6 million jobs less than its pre-recession peak. Despite, or probably because of, the strong job report, interest rates rose and stock prices fell precipitously on Friday and again on Monday, pushing the Dow below 10,000 for the first time this year. Investors fear that the fed will raise interest rates soon – and they're right. Although the fed did not raise rates at its meeting last week, the fed did note that it would no longer be “patient” in holding down the funds rate. Also last week, Chairman Greenspan expressed concerns that the deficit was much too large.

The fed is signaling higher rates. The fear of higher rates is now worse than the reality. But as I noted last week the real fear is not that the fed will raise rates at its next meeting; the big fear is that the fed will not raise rates or not act dramatically enough. I believe the fed has already waited a bit too long to increase rates. What would be best for the economy would be for the fed to

push the funds rate up by half a percent at its June meeting. In that way the fed will calm the financial markets.

The inflation genie is out of the bottle and only the fed can get it back in – and the sooner the better. Because if inflationary expectations begin to take hold, the fed will have to raise rates much higher to stem the tide. The danger now is that long term rates, especially the ten-year bond and mortgage rates, will continue to increase before the fed has a chance to make its move. If this continues to happen throughout the rest of the spring and the balance of the year, the economic recovery will slow and by 2005 stop altogether. Ironically, the only way the fed can cause rates to stop rising is by increasing the funds rate as soon as possible.

This is Hank Fishkind for 90.7 FM, WMFE News.

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