Dont expect job data alone to persuade fed on rates

Literature, Russian Literature

Sur Supervisor Summary: “ Don’t Expect Job Data Alone to Persuade Fed on Rates” The above d article is published by ‘ The New York Times’ on January 23, 2014. The article has been written by Floyd Norris about interest rates policy of the Federal Reserve. The author reminds that the Federal Reserve, about a year back, justified maintaining the low interest rates until the unemployment rate continues to hover above 6. 5 percent. Ben Bernanke, the Fed Chairman, then assumed that the high unemployment rate, above 6. 5 percent, would continue at least until mid-2015. The unemployment rate for the month of December, 2013 is estimated at 6. 7 percent and it is quite likely that the targeted unemployment rate of 6. 5 percent will be achieved soon. It is important to note that inflation so far has remained low.

This does not mean that the Fed will raise interest rates soon. By next week, Bernanke’s will hand over the charge to Ms. Janet Yellen and according to the writer, chances of interest rates being revised upward is minimal because Ms. Yellen has already commented that other parameters have not improved in line with the unemployment rate. For example, the proportion of long-term unemployment rate and the part-time workers willing to work for full time has not shown encouraging indications. It is important to note that even during early 1980s recession, the median time for unemployed people to remain jobless was 12 weeks. People remained unemployed for 25 weeks in 2010 and the latest job report also estimates this figure at 17 weeks. The most disturbing news is that this figure is still rising. The short-term unemployment rate or the proportion of people remained jobless for 15 weeks has declined to 3. 1 percent; however, this figure is still higher than the figure of prerecession period. Similarly, the long-term unemployment rate is still hovering at 3. 6 percent and not relenting.

One more important consideration is labors share of income in the nonfinancial corporate sector, which is measured by the Bureau of Labor Statistics each quarter. For comparison, it should be noted that the labors share of income has remained between 61 and 66 percent right from 1950 through the early 2000s; that is currently ruling at 57. 1 percent – much below 60 percent registered in 2005. Thus, Yellen is more concerned with the people who have fallen behind.

Implications on the US economy

Lower interest rate helps boost demand because consumers tend to spend more rather than saving or holding it. Moreover, the cost of borrowing is low helping businesses to invest and create employment; lower mortgage helps spur growth in construction because the interest burden on home buyers is minimal. In short, lower interest rate helps increase aggregate demand within the economy that in turn, boosts business activities reducing prevailing unemployment rates and that is what the Fed is attempting to do. In view of this, it is clear that until the job market improves on all parameters –unemployment rates and the labor's share of income, there is a little scope of the interest rates getting revised upwards by the Fed. The Fed would like to observe the job market data for several quarters to come before making any upward revision of interest rates.

Work-Cited

Norris, Floyd. " Don't Expect Job Data Alone to Persuade Fed on Rates". Web. 23 Jan, 2014.

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