Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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U.S. jobs could soar when the Fed cuts rates

If the Fed had cut rates in February and had not stubbornly kept them significantly above the neutral rates, the labour market would be much stronger than the latest figures show.

However, the August U.S. jobs report, released by the Bureau of Labor Statistics, offers several encouraging developments for the nation's labour market, especially regarding the reduction in government jobs and robust economic growth projections from the Atlanta Fed.

By keeping rates at least 100 basis points above the neutral level, the Fed has negatively affected job creation, particularly for small and medium enterprises (SMEs).

For every 100 basis points that the Fed funds rate exceeds the neutral level, SME job growth can slow by 0.5–1.5 percentage points annually, according to the Minneapolis Fed, the IMF, and other studies.

The most vulnerable are firms with fewer than ten employees, which may experience employment declines of 2–3%.

This means that the Fed's decision to keep rates more than 100 basis points above the neutral level may have prevented the creation of tens of thousands of jobs in the past five months.

Labour market resilience

Despite the challenging economic conditions created by elevated rates, total nonfarm payroll employment in August increased by 22,000 positions, maintaining stability since April.

This continuing job creation reflects the underlying labour market resilience. Key sectors like healthcare posted notable gains, adding 31,000 jobs, which contributed to the ongoing recovery and expansion of essential services.

A particularly positive outcome in the August report is the marked monthly and annual reduction in government employment. Federal government jobs fell by 15,000 in August alone, contributing to a cumulative decline of 97,000 since their recent peak in January.

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This sustained contraction signals that fiscal efficiencies are taking hold, potentially reducing public sector expenses and contributing to a more sustainable budgetary outlook.

In August 2024, government jobs rose by 24,000. Employment growth in government had accelerated in 2024 (+440,000) and in 2023 (+709,000), exceeding the growth in 2022 (+299,000) and 2021 (+392,000).

Shrinking government payrolls can redirect resources towards private sector dynamism and growth.

Another bright spot comes from wage data. Average hourly earnings for private-sector employees rose by ten cents (0.3%) in August, continuing a trend of gradual but solid wage growth. Over the past year, wages have increased by 3.7%, which shows a steady and solid path of real wage increases.

The US economy is strengthening, and the Atlanta Fed's latest GDPNow model projects third-quarter GDP growth at 3.0%. This incorporates real-time data across consumer spending, investment, and trade, and it comes significantly above the mainstream consensus estimate of 2.5%.

Time to bring the economy back to the private sector

The job market in August shows that the Fed is wrong about rates and that policymakers are hurting the US labour market. The Fed was

wrong for being too loose in 2021 and is currently wrong for being too tight in 2025, due to a misguided view of inflation that has been disproven month after month.

Even with high rates, the U.S. economy remains well positioned for a sustainable recovery heading into late 2025 + Daniel Lacalle

However, the labour market is not broken, and private sector jobs continue to grow at a healthy pace. However, the economy could be much stronger if interest rates were neutral.

Although the August job figure may seem modest, the combination of public sector cost control, strategic health care growth, rising wages, and improving GDP projections demonstrates that the economy is recovering.

Even with high rates, the U.S. economy remains well positioned for a sustainable recovery heading into late 2025.

Bloating GDP and the job figures with government spending and public sector employment has led France down the path of a debt crisis and unsustainable public accounts. Not only that, but France has also been in stagnation for years, and productivity growth is exceedingly poor.

Scott Bessent announced it was time to bring the economy back to the private sector, and that is exactly what is happening. Government spending is under control, government payrolls are being reduced, and GDP growth estimates remain strong.

The Fed needs to act and return rates to the neutral level. It would be even better if the Fed did not set rates, as these would have fallen significantly by now.