Jobs report could be tipping point for Fed

But market turmoil may keep board from raising interest rates

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It could take a blockbuster payroll report Friday to nudge the Federal Reserve into raising interest rates this month, but after recent market turmoil, some economists say the Fed won't move even if the job gains are eye-popping.

"September is most probably off the table," economist Jesse Hurwitz of Barclays Capital says. The Fed hasn't raised its benchmark rate since 2006, and it has hovered near zero since the 2008 financial crisis.

Economists expect the Labor Department to report that employers added a solid 218,000 jobs in August, in line with the 211,000 average monthly additions so far this year. Payroll processor ADP said Wednesday its own sampling showed businesses added 190,000 jobs last month.

But Hurwitz says even 300,000 gains, a further drop in the near-normal 5.3% unemployment rate and accelerated wage growth won't move the Fed's needle.

His reasoning is simple: It takes at least a couple of months for battered markets to affect the real economy, and the impact likely won't be evident in economic reports released before the Fed's Sept. 16-17 meeting.

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Jim O'Sullivan, chief U.S. economist of High Frequency Economics, agreeing that a September rate hike is unlikely, especially since such a move would further stoke a bear market

Stocks have fallen nearly 7% the past couple of weeks, oil prices have been volatile and the dollar has strengthened, developments triggered mostly by China's economic slowdown.

Falling equity prices can dampen the confidence and spending of consumers and businesses. Meanwhile low oil prices can hurt energy investment, and a rising greenback can curtail exports, intensifying recent trends. All told, Hurwitz says, the market stress is likely to shave two-tenths of a percentage point off economic growth and raise the unemployment rate by a similar amount over the next 18 months.

Noting that inflation is expected to remain stubbornly below the Fed's annual 2% target the rest of the year, Hurwitz says he doesn't expect the Fed to hoist rates until next March.

Jim O'Sullivan, chief U.S. economist of High Frequency Economics, agrees that a September rate hike is now unlikely, especially since such a move would further stoke a bear market. "They certainly don't want to be blamed for causing a crash," he says.

But he says a report of more than 250,000 employment gains Friday at least raises the odds of the Fed pulling the trigger in two weeks.

Paul Ashworth of Capital Economics says such a showing likely would convince the Fed to act. He expects virtually no impact of recent market gyrations on U.S. economic growth, though he says the central bank could be persuaded to hold off by reports of further troubles in China. Weakness in the world's second-largest economy can have widespread effects on global trade.

At the same time, Ashworth says, job gains below 150,000 would add to fears of a slowdown and likely ensure the Fed doesn't make a move.

"If it's around 200,000, it's essentially a toss-up," he says.