

Jobs, Wages, and the Fed's Inflation Fight

Charles Schwab · Henry Hoenig · 2026-10-12 · English original

Not too hot; not too cool. From the Federal Reserve's perspective, the U.S. labor market might be striking a helpful balance. It's creating enough jobs to help keep the unemployment rate low, but not enough to generate significant wage increases that would fuel inflation.

But things can change quickly. Only nine months prior to the September hike, in December 2025, the Fed cut rates with an eye on what then-Chair Jerome Powell described as rising downside risks to employment amid weakening job growth. That was the shortest amount of time to elapse between a Fed rate cut and rate hike in more than a quarter century.

After the Fed raised interest rates in September, Chair Kevin Warsh said upside and downside risks to the labor market were roughly balanced, unemployment claims were consistent with full employment, and the job market signaled strength in the U.S. economy. That gives the Fed room to focus on containing inflation in the medium term while not damaging the labor market, Warsh said.

That's a welcome development for a new Fed chair facing sharply higher oil prices and inflation that remains well above the central bank's 2% target. Annual inflation, as measured by the Personal Consumption Expenditures (PCE) price index, the Fed's preferred gauge, was 3.4% in August.

Jobs data shows how the picture has changed for Warsh. The weakness seen in the second half of 2025 gave way to relatively slow, uneven jobs growth in 2026. More than twice as many jobs were created in the first nine months of 2026 as in the same period of 2025. The three-month average of monthly payroll gains rose to about 142,000 in May before falling back to about 51,000 in September.

Three-month running average of nonfarm jobs created

The low unemployment rate, which ticked up to 4.2% in September, is the result of a range of factors—but strong demand for new workers is not among them. In April, a Federal Reserve staff note said labor force growth could hit near-zero sometime in 2026, due to slower immigration and overall population growth, with as few as 10,000 jobs a month needed to keep the unemployment rate steady.

Meanwhile, both layoffs and job exits are at recent lows. In August, the quits rate was 1.9% of total nonfarm employment, tied for the lowest since June 2020, while layoffs and discharges hit 1%, tied for the lowest since June 2024.

Amid soft hiring and little job-switching, growth in both nominal and inflation-adjusted wages has steadily slowed in 2026. Average hourly earnings—which haven't kept pace with inflation since April 2026—rose 3% from a year earlier in September, the slowest pace since May 2021. That's not great for employees, but it's helped limit inflationary pressure from the job market.

Growth in nominal and inflation-adjusted wages

With Consumer Price Index (CPI) and Producer Price Index (PPI) data due October 14 and 15, respectively, investors will want to watch for any sign of rising wage pressures or labor-related costs. If they begin heating up, it could complicate the Fed's job of cooling inflation.

Explore more topics

This material is intended for general informational and educational purposes only. This should not be considered an individualized recommendation or personalized investment advice. The securities, investment products and investment strategies mentioned are not suitable for everyone. Each investor needs to review an investment strategy for their own particular situation before making any investment or trading decisions.

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

For illustrative purposes only. Individual situations will vary. Not intended to be reflective of results you can expect to achieve.

The policy analysis provided by the Charles Schwab & Co., Inc., does not constitute and should not be interpreted as an endorsement of any political party.

All product symbols, names, market data and image used are for illustrative purposes only, and should not be considered an offer to sell or a solicitation of an offer to purchase any product or employ any strategy.

Source: <https://www.schwab.com/learn/story/jobs-wages-and-feds-inflation-fight>