mni

All Signal, No Noise

MARKET ANALYSIS

U.S. Payrolls Preview: Sep 2025

MNI View: Slack Metrics Eyed With Risks Rising

Sep 3, 2025 - By Chris Harrison

CONTENTS

Executive Summary

- Nonfarm payrolls growth is seen at 75k in August (sa) per the broad Bloomberg survey, after 73k in July.
- Revisions are going to be particular focus after last month's huge downward revisions heavily altered recent trends, with non-health private payrolls growth at best stalling for the past three months, and dominated the market reaction.
- The median primary dealer analyst eyes 70k whilst the Bloomberg whisper currently sits at 83k but with the ADP report still to come after publication of this preview.
- Payrolls figures are increasingly being seen in light of a sharply reduced 'breakeven' pace on significant moderation in labor force growth. We generally see estimates between 50-100k/month.
- The unemployment rate is seen at 4.3% but with a sizeable skew towards a 4.2% - it doesn't take much from 4.25% in July. This rate has moved within a 4-4.25% range since July 2024 and will be watched closely as gauge of labor market slack amid uncertainty over the signal sent by monthly payroll changes.
- An added complication worth considering is the soon-to-be-published preliminary benchmark revision due Tuesday (Sep 9), with expectations of a second year of heavy downward revisions.
- Whilst there has been a dovish build-up to this payrolls report, and with ADP and ISM services still to come before then, we currently assess that risks for market reaction are skewed towards a downside surprise.

Revisions In Focus After Historically Large Reduction In July

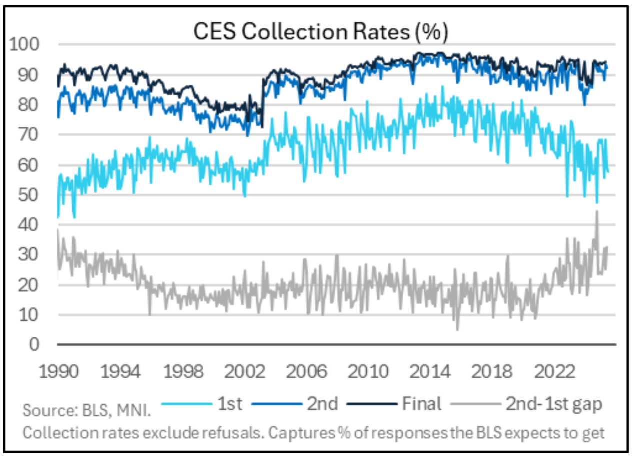
Nonfarm payrolls growth is expected at 75k in August per the broad Bloomberg consensus, very close to last month's realized 73k. The 73k in July undershot the 104k expected for nonfarm payrolls growth but by far the bigger surprise was the -258k two-month downward revision - the largest in at least forty-five years when excluding April 2020 of the pandemic. It dramatically altered recent perceptions of labor market resilience, with a three-month average of just 35k for nonfarm payrolls or 52k for private payrolls (and -16k for private excluding health care & social assistance).

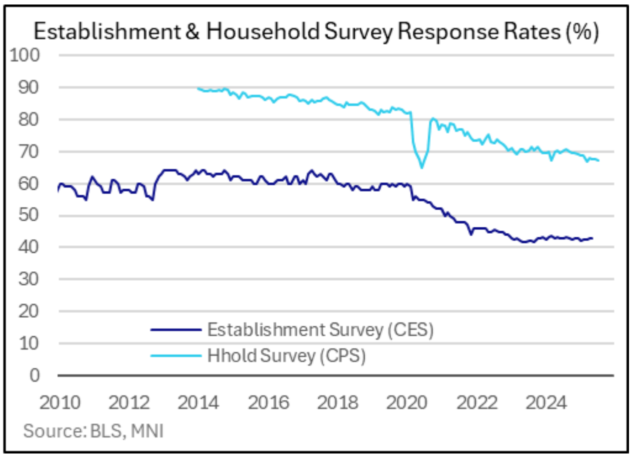
Recent Payrolls Surprises vs Revisions (000s)

	Outturn	Cons.	Surprise	2-mth Rev.	Net
Jan	143	175	-32	100	68
Feb	151	160	-9	-2	-11
Mar	228	140	88	-48	40
Apr	177	138	39	-58	-19
May	139	126	13	-95	-82
Jun	147	106	41	16	57
Jul	73	104	-31	-258	-289

Outturn and two-month revision showing for at the time of release
Source: BLS, Bloomberg, MNI

As such, revisions are no doubt going to be watched particularly closely this month and there's nothing to rule out further large revisions. Initial collection rates have been low recently, including 57.6% last month. Whilst not historically low, as was the case in Oct 2024 when the 47.4% was its lowest since Jan 1991, it still lags the 74% averaged in 2019 for a simple pre-pandemic comparison. Combined with 2nd response collection rates hovering in the low 90s (it was 92.3% last month, i.e. for June, vs the 90% averaged pre-pandemic) and there's more additional information being received between the initial reported month and its first revision than used to be the case, although this isn't a particularly new trend – see the below charts. On its own, this doesn't bias readings in either direction, but some might assume that struggling companies are ones to file survey responses later on which could help explain the generally negative trend to two-month revisions – see table. The upshot of these revisions is that the weakening in jobs growth has better chimed with the rise in continuing jobless claims, although since then these weekly data have plateaued and if not improved in some cases.





Breakeven Estimates In A 50-100k Range

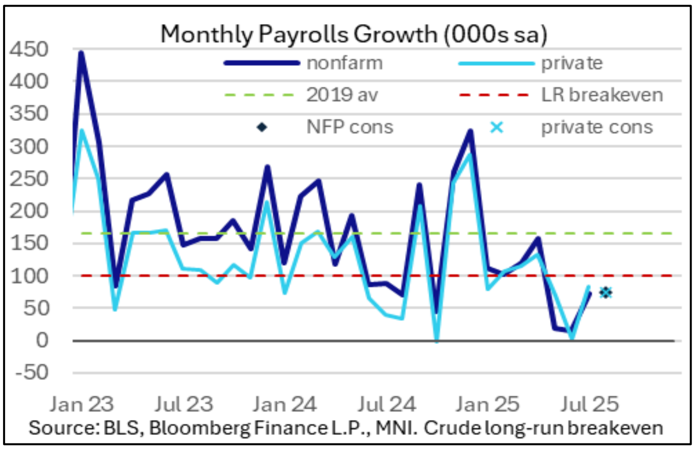
There continues to be focus on the potential "breakeven" rate of payrolls growth, that is the pace at which the unemployment rate would be kept steady when allowing for differences between the establishment and household surveys. With significant moderation in labor force growth having broadly come along with reduced labor demand, there appears to be a rough range of estimates that this breakeven rate could be between 50-100k. Of the FOMC members, the estimates tend to be capped at either end by those from the hawkish and dovish end of the spectrum. St Louis Fed's Musalem, a '25 FOMC voter and clear hawk, thinks it's reasonable to expect the breakeven rate could be below 50k whereas Fed Governor Waller, a firm dove seen as leading contender for next Fed Chair, viewed it a few months ago as being in the 80-100k region.

Recent Payrolls Breakeven Estimates

	View	Breakeven	Estimate date
Fed	Daly (non-voter)	100k	Jul 2025
	Waller (voter, dove)	80-100k	Mar 2025
	Bostic (non-voter)	50-75k	Aug 2025
	Musalem ('25, hawk)	Sub 50k	Aug 2025
	Williams (voter)	No good estimate	Aug 2025
	SF Fed staff	70-90k long-run	Jul 2024
Sellside	RBC	100k	Aug 2025
	DB	100k, could be as low as 50k	Jul 2025
	GS	90k	Aug 2025
	Wells Fargo	40-60k	Aug 2025

Source: Analyst notes, Fed official comments, MNI

Waller last week doubled down on the need to start cutting rates, having dissented against the decision to hold rates back in July. He pushed back on squaring away declines in labor demand with reduced labor supply, with the following excerpt from his unsurprisingly dovish speech titled "Let's Get On with It" on Aug 28:

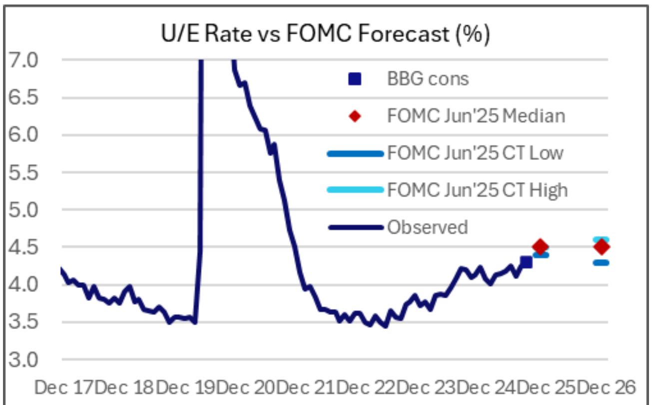


"Returning to the labor market, risks are continuing to build. In my July 17 speech, I said that private-sector job creation was nearing stall speed, and the data received since then have put an exclamation point on this statement. I always say that one month is not a trend, but now we have three months of weak job-creation data from the Current Employment Statistics. After revisions included in the July report, private-sector job creation averaged 52,000 in May, June, and July, about half the rate in the first quarter of 2025. The headline numbers, including public-sector workers, are, as I noted earlier, even worse, but I tend to focus on the private sector as a better indication of the underlying momentum in the labor market.

That's the picture after the unusually large revisions to May and June payrolls and the soft reading for July that was included in the latest jobs report. In addition to those revisions, on September 9 we will get a preliminary estimate of what to expect in the annual "benchmark" revisions to 2025 early next year. I estimate that monthly job creation will be reduced by an average of about 60,000 a month. That would mean that private-sector employment actually shrank, on average, in the past three months and that job creation earlier in the year was weaker than currently reported.

I have heard the argument that declining labor supply due to lower immigration means that low jobs numbers aren't as bad as they look and that the "breakeven" number for keeping the unemployment rate steady is declining. To those people, I would say: Yes, these estimates have been falling, but I haven't heard anyone say the breakeven level is negative. Supply-side changes can't account for the ugly jobs numbers of the past three months."

U/E Rate In Increasing Focus, FOMC Looking For Trend Rise
We have been writing for some time now that the unemployment rate should be watched as closely as the payrolls figures to give a better sense of labor market balance. To this end, the unemployment rate is seen at 4.3% in August after rising to 4.25% in July. That was technically a cycle high but with the rate tracking between 4-4.25% ever since a high of 4.22% back in July last year. Whilst now outdated, the median FOMC forecast from the June SEP had the unemployment rate increasing to an average 4.5% in 4Q25 as part of its profile with 50bp of cuts to year end. A reminder that this data is of course taken from the separate household survey. Highlighting just how different these can be month-to-month, Scotia are the most pessimistic of primary dealer analysts for payrolls estimates (0k) yet the most hawkish for the unemployment (4.1%) – analyst summary below.



*Low and high range of Central Tendency. Showing Q4 average
Source: BLS, Federal Reserve, MNI. Peaked at 14.8% in Apr 2020

Cleveland Fed's Hammack ('26 voter) is of a similar view, although actually puts even more weight on the unemployment rate. Speaking last month: "W*ith the changes that have happened in immigration policy, it's not clear that that headline [payrolls] growth number is going to be as informative as things like the unemployment rate, the vacancies to unemployed ratio, other things that we're looking at on the employment side of the mandate, and that's because we've seen a massive shift. So yes labor demand may be coming down but labor supply has come down pretty dramatically as well. And so our goal of maintaining employment around maximum needs to look at both sides of that, and it could be that even though we're seeing much slower headline job growth numbers, it could be that the labor market is still in balance and so we'll need to look at the closely."*

That's a similar message to Fed Chair Powell from his Jackson Hole address on Aug 22, although he cast it in a more dovish light considering rising downside risks to employment*: "The July employment report released earlier this month showed that payroll job growth slowed to an average pace of only 35,000 per month over the past three months, down from 168,000 per month during 2024 (figure 2). This slowdown is much larger than assessed just a month ago, as the earlier figures for May and June were revised down substantially. But it does not appear that the slowdown in job growth has opened up a large margin of slack in the labor market—an outcome we want to avoid. The unemployment rate, while edging up in July, stands at a historically low level of 4.2 percent and has been broadly stable over the past year. Other indicators of labor market conditions are also little changed or have softened only modestly, including quits, layoffs, the ratio of vacancies to unemployment, and nominal wage growth. Labor supply has softened in line with demand, sharply lowering the "breakeven" rate of job creation needed to hold the unemployment rate constant. Indeed, labor force growth has slowed considerably this year with the sharp falloff in immigration, and the labor force participation rate has edged down in recent months.*

Overall, while the labor market appears to be in balance, it is a curious kind of balance that results from a marked slowing in both the supply of and demand for workers. This unusual situation suggests that downside risks to employment are rising. And if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment."

As for latest moves in the household survey, unemployment increased 221k in July after -222k in June whilst employment fell 260k after a tepid 93k increase in June. It netted out at a -38k decline in the labor force, unusually a third consecutive monthly decline after -130k in June and a heavy -625k in May after jumping 544k in April. That could see prospects for a bounce back in employment in the typically volatile survey.

Preliminary Benchmark Revisions Loom Large

Back to the payrolls figures from the establishment survey, these are going to be viewed against the likelihood of sizeable downward revisions suggested by next week's QCEW data for Q1 due Sep 9. As always, these will give an indication of the actual benchmark revisions on the Mar 2025 level of payrolls due with the Jan 2026 payrolls report released in early February. Bear in mind that the final benchmark estimate tends to nearly always be more negative than the preliminary figure – see historical values to the right. That doesn't mean they can't be large again after last year's historically negative revision that lowered the level of payrolls by ~600k.

BLS Benchmark Annual Payrolls Revisions: Preliminary vs Final

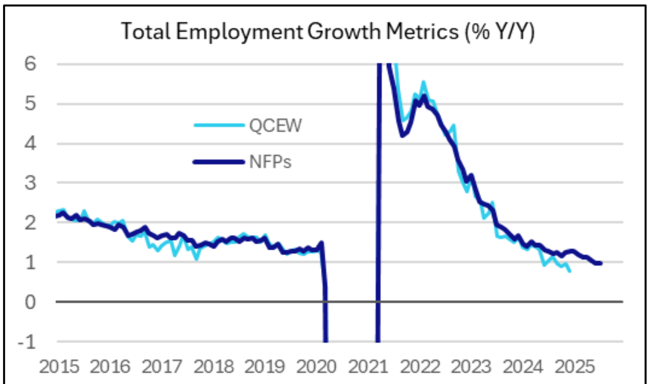
	Total nonfarm					Private sector				
	Prelim.		Final (NSA)		Final - Prelim	Prelim.		Final (NSA)		Final - Prelim
	000s	%	000s	%	000s	000s	%	000s	%	000s
2013	345		-119	*-0.1*	-464	333		-126	*-0.1*	-459
2014	47		67	*	20	7		105	*0.1*	98
2015	-208		-172	*-0.1*	36			-232	*-0.2*	
2016	-150		-81	*-0.1*	69			-151	*-0.1*	
2017	95	*0.1*	135	*0.1*	40	98		133	*0.1*	35
2018	43		-16	*	-59	-17		-104	*-0.1*	-87
2019	-501	*-0.3*	-489	*-0.3*	12	-514	*-0.4*	-505	*-0.4*	9
2020	-173	*-0.1*	-121	*-0.1*	52	-229	*-0.2*	-184	*-0.1*	45
2021	-166	*-0.1*	*	*	166	-421	*-0.3*	-256	*-0.2*	165
2022	462	*0.3*	506	*0.3*	44	571	*0.4*	607	*0.5*	36
2023	-306	*-0.2*	-187	*-0.1*	119	-358	*-0.3*	-249	*-0.2*	109
2024	-818	*-0.5*	-598	*-0.4*	220	-819	*-0.6*	-635	*-0.5*	184

* Less than 0.05% or 500 jobs

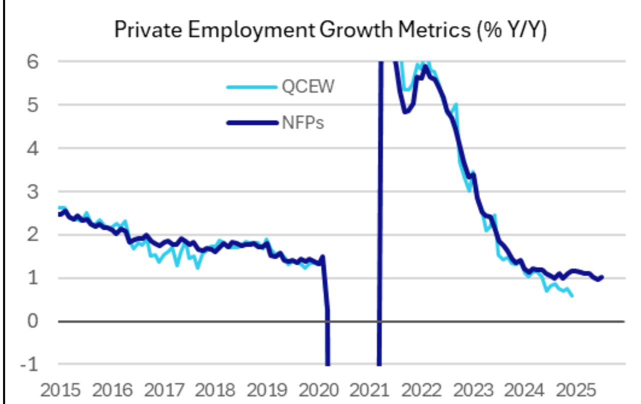
Many of the individual industry series show larger percentage revisions than the total nonfarm series, primarily because statistical sampling error is greater at more detailed levels than at an aggregated level.

Source: Bloomberg Finance L.P., BLS, MNI

As noted earlier, Waller repeated last week that "I estimate that monthly job creation will be reduced by an average of about 60,000 a month", based off the difference between the currently published level of payroll employment and employment from the QCEW up to 4Q24. He first made these remarks ahead of the July FOMC when he indicated he would push ahead with a call to start cutting rates. Alternatively, Nomura expect a preliminary benchmark revision at a "substantial" downward 600-900k from Apr 2024 through Mar 2025. They add that "The downward revisions will likely be due to multiple factors, including undocumented immigrants and an overestimation of job gains through business openings. The past revisions suggest that the primary cause of the revision tends to be excessive birth-death adjustments. The revised industry breakdown on job gains might show a greater degree of concentration in a handful of industries, which poses downside risks to labor markets."



Source: BLS, MNI.
Household survey employment includes census population adjustment



Source: BLS, MNI.

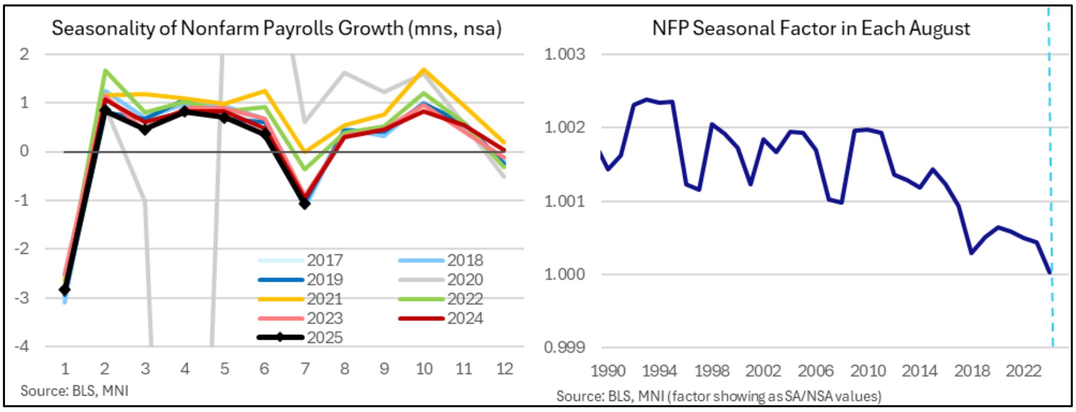
Fed Chair Powell at the July 30 FOMC press conference acknowledged the prospects for particularly weak payrolls growth but again cited the still low unemployment rate (when it was 4.12% vs latest data of 4.25% just to be clear):

"So, I'm not going to talk about any individuals, you know, any individual's comments, I wouldn't do that. But look, I think what we know is that private sector job creation, certainly in the last report, we will see on Friday, but had come down a bit. And if you take the QCEW adjustment seriously, it may be close to zero, but the unemployment rate is still -- was still low. So, what that is telling you is that, you know, demand for workers is slowing but so is the supply. So, that's -- it's in balance, oddly enough. You have got a very low unemployment rate and it's kind of been there for a year as job creation has moved down, but also we know that, you know, because of immigration policy really, the flow into our labor force is just a great deal slower and those two things have slowed more or less in tandem.

As for the current difference between QCEW and payrolls employment, QCEW data up to Dec 2024 pointed to total employment growth over the year of 0.8% Y/Y vs payrolls growth at the time of 1.3% Y/Y (which has since moderated to 1.0% Y/Y as of Jul 2025). There's a larger gap when just looking at the private sector, with QCEW pointing to 0.6% Y/Y vs an equivalent 1.2% Y/Y for private payrolls (1.0% in latest data).

Seasonal Factors Have Been Increasingly Unfavorable In August

August tends to be one of the smaller months for outright hiring in a nonseasonally adjusted sense, meaning a somewhat greater test of the low hire aspect of the “low fire, low hire” labor market after July’s layoffs. August net hiring has slowed in recent years with 299k in 2024, 328k in 2023 and 396k in 2022 vs an average 407k in the three years before the pandemic. We could well see a further moderation this month, with July seeing something similar with net losses of -1066k in 2025 vs -951k in 2024 and -922k in 2023 despite the still low level of initial jobless claims. On top of this, seasonal factors have been increasingly penal for August in recent years, i.e. a factor that trims the NSA level of payrolls by larger amounts. Remember as well that last month’s huge two-month revisions were heavily driven by changes in seasonal factors, with CEA’s Miran estimating that “60% of the overall revisions were due to quirks in the seasonal adjustment process”. May was the most pronounced, with a revision worth -125k to the seasonally adjusted level of payrolls vs the non-seasonally adjusted figure only being trimmed from 731k to 703k.



Moderation In Earnings Growth Expected To Pause

Rounding out the major areas of the report, average hourly earnings (AHE) growth is widely expected at 0.3% M/M in August after it was the only “strong” aspect of the July release with 0.33% M/M (cons 0.3).

It had been more surprising considering the mechanical drag that should have been seen from average weekly hours increasing back a tenth to 34.3 (cons 34.2) to avoid a rare second month at a low 34.2. The hours worked data should continue to help guide how the wage data are seen for broader indications of labor demand, expected to hold at 34.3. Downside surprises here should carry some dovish weight as we’re starting from an already low base compared to a pre-pandemic range primarily at 34.4-34.5 with a few 34.3 and 34.6 readings.

Sticking to the primary dealer analyst summary, note the clear skew towards a hawkish ‘surprise’ in the unemployment rate from the median of 4.3%, perhaps unsurprising considering a starting point of 4.25% in July.

Primary Dealers See Clear Hawkish Skew To U/E Rate

	Payrolls	U/E (%)	AHE (M/M)
Scotiabank	0	4.1	0.3
TD Securities	25	4.2	0.3
Citi	45	4.3	0.3
Goldman Sachs	60	4.3	0.3
RBC	64	4.3	0.3
Jefferies	65	4.3	0.3
NatWest	65	4.2	
Societe Generale	68	4.2	0.3
HSBC	70	4.3	0.3
Morgan Stanley	70	4.2	0.3
UBS	70	4.3	0.4
BMO	75	4.3	0.3
Barclays	75	4.2	0.3
J.P.Morgan	75	4.3	0.3
Nomura	85	4.3	0.3
BNP Paribas	90	4.2	0.3
BofA	90	4.2	0.3
Mizuho	90	4.3	0.3
Wells Fargo	90	4.3	0.3
Santander	95	4.2	0.4
Deutsche Bank	100	4.2	0.3
Median	**70**	**4.3**	**0.3**

Entered in Bloomberg Finance L.P. survey or seen by MNI.
notes tighter than consensus, blue looser

STIR: A Dovish Build-Up But Risks Still Tilted To Downside Surprise

A Fed 25bp cut is seen as locked in for the Sept 16-17 FOMC meeting with 24bp priced at typing after the softer JOLTS report. A reasonable dovish reaction to Wednesday's JOLTS report demonstrates sensitivity to downside surprises in labor market data and we suspect that will continue to be the case come nonfarm payrolls on Friday. With 57.5bp of cumulative cuts priced to year-end, we feel a weak NFP report could see a shift nearer to 75bp of cuts priced. That could either capture a "recalibration"-style approach to the resumption of cuts, roughly mirroring the 50bp start to the Fed's cutting cycle back in September 2024 after a weak July payrolls report, or perhaps more likely the perception of three consecutive cuts with the advantage being less at risk of overly reacting to volatile and revision-prone data.

Fed Governor Waller, leading contender for next Fed Chair and one of the preeminent doves on the FOMC now, did however caution earlier today on the pace at which rate cuts might be seen, although it is of course data dependent. This from a CNBC appearance: "for me, I think we need to start cutting rates at the next meeting, and then we don't have to go in a locked sequence of steps. We can kind of see where things are going, because people are still worried about tariff inflation. I'm not, but everybody else is. So I would say over the next three to six months, we can see multiple cuts coming in, whether it's like every other meeting, every meeting, we'll have to wait and see what the data says and where we are headed." A further increase in downside risks would clearly be notable, especially with prospects of an increasingly dovish Board of Governors following Trump administration picks.

At the same time, a surprisingly strong report that goes some way to offsetting last month's net weakness could see the hawks start to gain some confidence. Recall that whilst now stale considering the amount of new information since then, the June SEP saw the median FOMC member pencil in two cuts to year-end but seven eyed no cuts at all. St Louis Fed's Musalem ('25 voter), one of the most hawkish members of the FOMC, suggested Wednesday that rates are currently at the right level given economic conditions. He didn't explicitly argue for a rate hold in September - leaving it uncertain whether he would dissent against the Committee's likely decision to cut 25bp. But it's pretty clear that while he is prepared to ease policy at some point in the future, and he recognizes that the balance of risks is tilting a little more toward missing on the employment mandate, he is comfortable with keeping policy "modestly restrictive" for now.

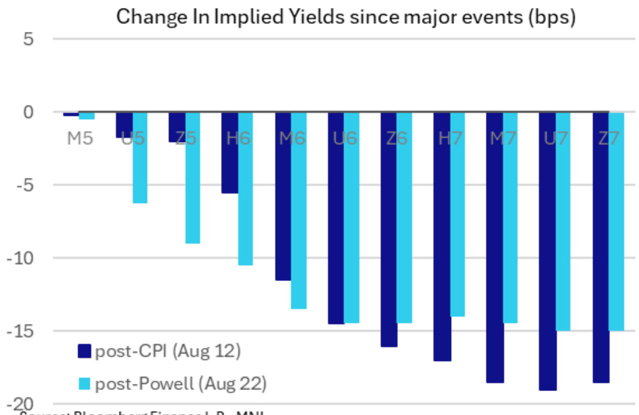
With multiple FOMC members talking on the importance of the unemployment rate for a gauge of labor market balance, we feel this should increasingly carry sway and be seen in the light of the June SEP eyeing an increase to 4.5% in 4Q25 before stabilization thereafter.

As for confidence in future data reliability, which is clearly already low: Scotiabank offer the following caution looking ahead: "Next up will be when E.J. Antoni takes over as BLS Commissioner assuming the Senate doesn't get in his way. His lack of qualifications for the role and heretical views may put us all into uncharted territory in terms of the reliability of data on US jobs and inflation." This of course follows President Trump's extraordinary response to last month's payrolls report in firing BLS Commissioner McEntarfer shortly afterwards.

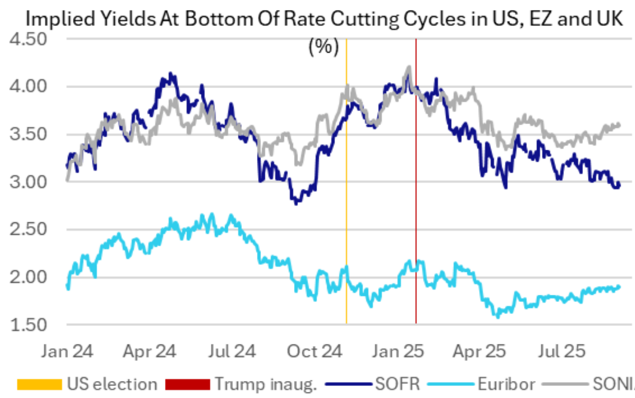
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre ISM mfg (Sep 2)			*chg in rate*	pre Powell (Aug 22)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Sep'25	4.09	-23.9	-23.9	4.11	-22.4	-22.4	*-1.5*	4.15	-18.1	-18.1	*-5.8*
Oct'25	3.96	-12.8	-36.7	3.98	-13	-35.3	*-1.4*	4.03	-12	-30	*-6.9*
Dec'25	3.76	-20.8	-57.5	3.78	-20	-54.8	*-2.7*	3.85	-19	-48	*-9.1*
Jan'26	3.64	-11.7	-69.2	3.67	-11	-66.2	*-3.0*	3.73	-11	-60	*-9.5*
Mar'26	3.49	-14.6	-83.8	3.53	-14	-80.5	*-3.3*	3.60	-13	-73	*-10.9*

Source: Bloomberg Finance L.P., MNI.



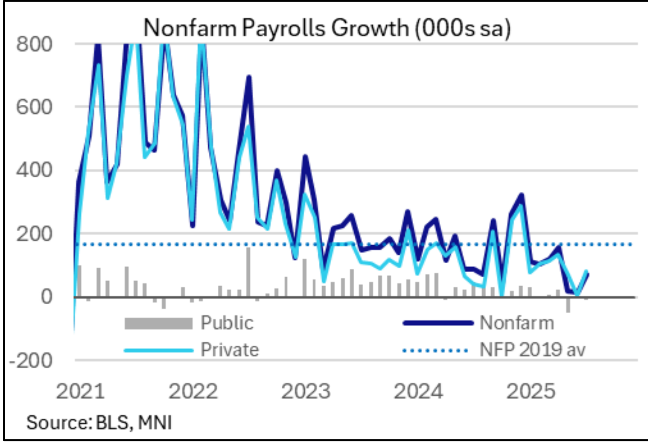
Source: Bloomberg Finance L.P., MNI

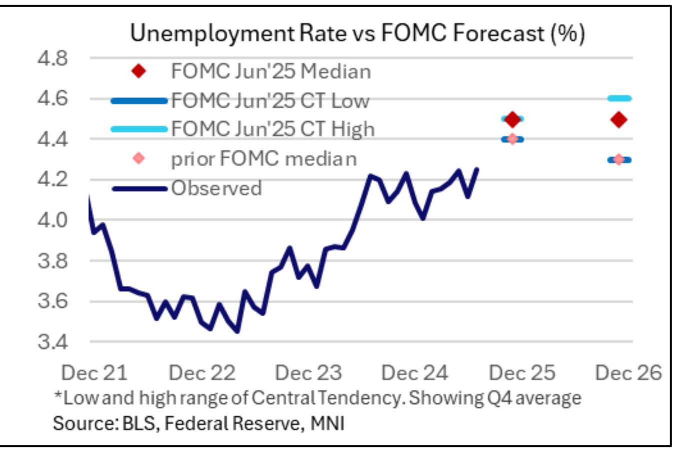


Source: Bloomberg Finance L.P., MNI. Minimum implied yield looking out to end-2027

Recent Labor Market Developments

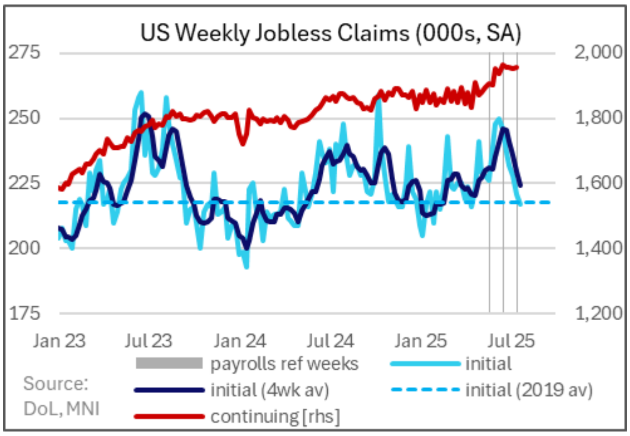
Last month's payrolls recap on how the huge negative payroll revisions dominated the reaction but the u/e rate was still roughly rangebound (**link here**).





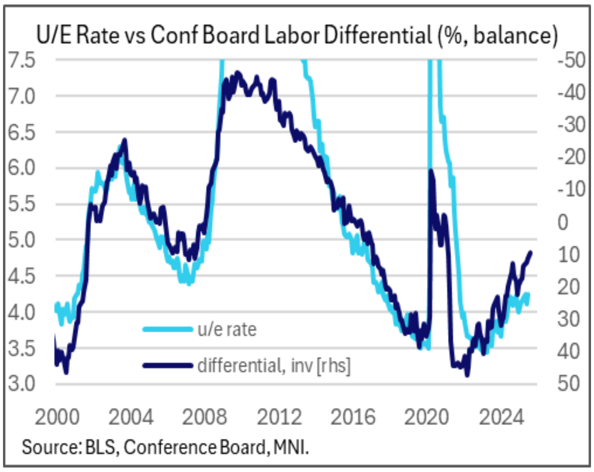
Labor indicators since last NFP report: Downside But Still Awaiting ADP

[The ADP jobs report for August will be published on Thursday (Sep 4), a day later than usual due to the Labor Day holiday. With hindsight after the large downward revisions to payrolls data in July, it has given a good indication of the cooling seen in private sector employment. There does, however, remain a significant gap between resilient education & health employment in the payrolls data compared to a much weaker backdrop in ADP.]



Mild downside: It's hard to know where to put the jobless claims data in this section this month, with most weekly releases being broadly close to expectations. However, the reference week saw both initial and continuing claims increase compared to July, pointing to some further modest weakness, even if it's below the recent pop higher seen in June. Specifically, initial claims registered 234k in the reference period vs a low 221k in Jul and a recent high of 246k in June. Alternatively, continuing claims registered 1954k after 1946k in July and 1964k in June, with a caveat that this latest 1954k seems highly likely to be revised lower judging by a pattern seen for multiple months now (this revision will come with data released Sep 4, after publication of this preview).

Clearer downside:

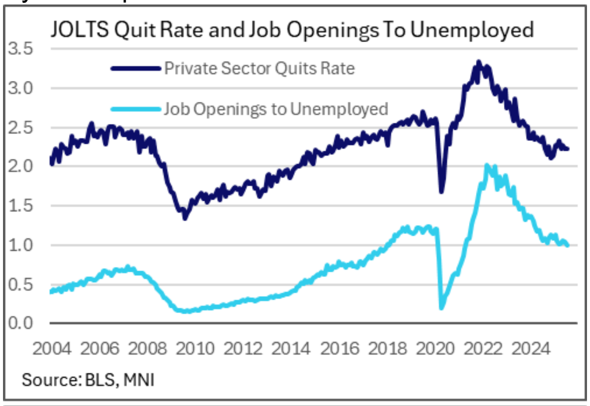


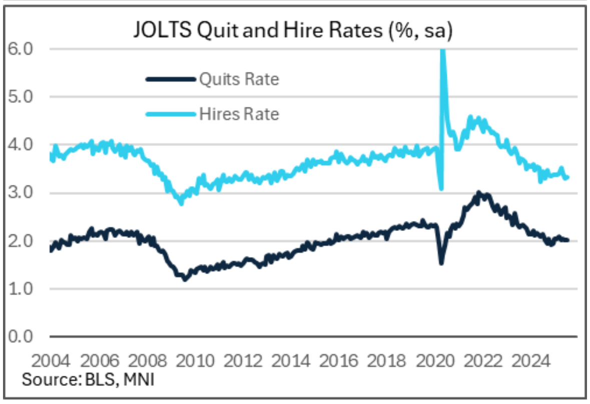
The **Conference Board labor differential** edged lower again to 9.7 in August after a marginally downward revised 11.0 (initially 11.3). It has declined for eight consecutive months now from a recent peak of 22.2 in December (and having averaged in 22 in 2024). 9.7 is the lowest since Feb 2021 whilst it was also technically the largest drop in the differential since April.

- Jobs plentiful: little changed at 29.7 after a downward revised 29.9 (initial 30.2)
- Jobs hard to get: led the weakness in the differential with 20.0 after an unrevised 18.9 (initial 18.9). This is the highest perception of jobs being hard to get also since Feb 2021, with a recent low of 14.5% in January and a cycle low of 9.6% in Mar 2022.
- As we often point out, this shouldn't be used for a month-to-month estimate of the unemployment rate but the downtrend in

the differential clearly supports a trend increase in the unemployment rate. The u/e rate at 4.25% in July may not be much higher than the 4.22% in July 2024, having seen a range of 4.0-4.25% since then, but the labor differential has shifted from 17% to 10% in that period.

The **JOLTS report** for July was softer than expected, primarily on the openings front as the ratio of vacancies to unemployed fell to a new recent low. Powell at Jackson Hole had pointed to this metric in the category of little changed to only modestly softer over the past year, leaving sensitivity to any subsequent declines here.





- Job openings were lower than expected at 7181k (sa, cons 7380k) in July after downward revised 7357k (initial 7437k) in June.
- Combined with the already known sizeable rise in unemployment from last month's payrolls report and the ratio of openings to unemployed fell to 0.99 from 1.05 (initial 1.06).
- That's the lowest ratio since Apr 2021 having kept to a fairly tight range around an average 1.07 since mid-2024. That said it's still not wildly different to the 1.02 and 1.03 seen in Mar-April.
- The quit rate was little changed at 2.01% after an upward revised 2.01 (initial 1.97) in June, having averaged 2.0% since Aug 2024.
- These quit rates remain low historically compared to pre-pandemic figures of 2.3% through 2019 and 2.2% through 2017-18, but see a steady trend rather than a further softening. Indeed, they remain above late last year's recent lows of 1.9%.
- Hire rates meanwhile ticked up marginally to 3.33% from an upward revised 3.30% (initial 3.26), although that does little to reverse a pullback from a recent high of 3.52% in April.
- Layoffs were higher than expected as they increased to 1808k (cons 1675k) from an upward revised 1796k (initial 1604k) although we caution that the consensus comes from only three responses. Nevertheless, that's still the highest since Sep 2024 and continues a broad uptrend back more clearly to pre-pandemic levels.
- Recall Powell from Jackson Hole (Aug 22): "The unemployment rate, while edging up in July, stands at a historically low level of 4.2 percent and has been broadly stable over the past year. Other indicators of labor market conditions are also little changed or have softened only modestly, including quits, layoffs, the ratio of vacancies to unemployment, and nominal wage growth."
- Today's report for July marks a further modest softening in the ratio of vacancies to unemployment although the quits rate has continued to stabilize.

Selected Sell-Side Views

Ranked from largest to smallest NFP figure:

Berenberg: Fed Seems To Focus On U/E Rate To Judge Labor Market Health

- NFP growth of 100k and the u/e rate to hold at 4.2%.
- “Even a decent gain in nonfarm payrolls and a stable jobless rate in the data published Friday are unlikely to stop the Fed from cutting rates by a 25bp on 17 September.”
- “The data for the previous two months may also be revised up. Fed Chair Jerome Powell’s Jackson Hole speech showed that his focus has shifted to the labour market, possibly reflecting the intense political pressure on the Fed.”
- “Although a 25bp rate cut in September is not a done deal, it would likely take a major upside surprise to bring the rate-cut odds back to 50-50 – one that shows US job growth has moved above stall speed after accounting for benchmark revisions.”

- "A recent analysis by the American Enterprise Institute estimates that net immigration this year will likely range between -525k and 115k. Taking the median of that range (-205k) implies that the labour force in the United States could be shrinking. If that is the case, then the breakeven rate would indeed be negative. In other words, the US could shed jobs and still maintain a stable unemployment rate. Put differently, even small declines in employment may not exert downward pressure on wage growth and core inflation."
- "Of course, estimating immigration and labour market flows in real time remains nearly impossible. As a result, uncertainty around the breakeven rate is huge. This was likely a key reason why the Fed seemed to focus on the unemployment rate – and not headline employment gains – to judge the health of the labour market, at least until Jackson Hole."

UniCredit: Expecting May-June Revisions To Have Been Temporary Weakness

- NFP growth of 100k and the u/e to hold at 4.2%.
- "The August employment report due next Friday will provide important evidence as to whether the large downward revisions to payrolls in May-June were temporary or rather the beginning of a more-pronounced slowdown."
- "Our base case is the former, as economic uncertainty has eased somewhat, financial conditions have improved and leading indicators such as small businesses' hiring intentions have picked up recently. We expect payrolls rose 100k in August, up from an average of just 35k over the prior three months."
- "The unemployment rate probably held at 4.2% with upside risks, while average hourly earnings likely rose a robust 0.3% mom."

Westpac: A Marked Decline In Employment Is Unlikely Absent Another Shock

- NFP growth of 90k and the u/e rate a tenth higher at 4.3%.
- "While we had been expecting the US labour market to stall out in mid/late 2025, we continue to believe a marked decline in employment and consequent rise in the unemployment rate above 5.0% is unlikely absent another shock. And so we forecast a 90k gain for payrolls in August. Keep a close eye on revisions to gauge downside risks, however."
- On last month's July release, "Household survey employment was weaker still, continuing a trend seen over the past year. If participation had not fallen over the period, the unemployment rate would now be above 4.5%."

JPM: Unclear If Due Further Large Revisions After Bucking Of Trend

- NFP growth of 75k (private 75k) in August and the u/e rate a tenth higher at 4.3%.
- "We assume that federal government payrolls continue to steadily decline: excluding a large 26k cut in May, they've fallen by an average of 12k per month since the start of the Trump administration, and we then expect this will be offset by growth in state and local employment. The administration has signalled that large additional federal layoffs are generally not needed in light of employment declines caused by attrition plus the ~150k employees who took deferred resignations and are set to roll off payrolls starting in October."
- "Looking across a range of labor indicators there was not much change between July and August."
- "One additional observation comes from a speech this week by Governor Waller. He noted that weekly data that ADP shares with the Fed pointed to "continued deterioration" in the employment trend after the July survey week. That could also signal that the monthly ADP figure due out next week will be soft."
- The magnitude of last month's revisions "was unusually large, but their direction was not, as revisions have been consistently negative over the last few years. Looking at past years, the August release was typically revised up, leading one to discount weakness in the first release, but this trend has reversed in the last few years, at least by the time of the third release. For the already-released July data there is not a clear pattern. In the last couple years there was a downward revision with the second release and a net upward revision by the time of the third release, but this may not be a new pattern. Finally, for the June data, revisions have been consistently negative since 2022. Normally, though, the big downward revisions come with the third release, whereas this year there was already a large negative revision with the second release, so it is unclear if we are due for further revisions."
- They see the u/e rate rising a tenth to 4.3% whilst the participation rate holds at 62.2%. However, "a decline in unemployment among new labor market entrants could restrain any increase, which offers the possibility that the rate will remain at 4.2%."

Commerzbank: Insufficient Labor Supply Only A Minor Factor Of Labor Market Slowdown

- NFP growth of 70k and the u/e rate a tenth higher at 4.3%.
- The "US employment report for August can hardly exceed the turmoil triggered by the July data. At that time, it was not only the low job growth of 73,000 in July that disappointed, but even more so the downward revision of the figures for May and June by a total of 258,000 that caused a stir. President Trump responded by accusing the Bureau of Labor Statistics (BLS) of manipulation and fired its head on the same day. Trump has since nominated the chief economist of a conservative think tank as her successor, but he still needs to be confirmed by the Senate. This raises the specter of politicization of the data."
- "The figures now available show that the labor market has recently performed significantly worse than expected. Fundamentally, the weaker employment dynamics could be due to a lack of available workers, for example because of Trump's significantly more restrictive immigration policy. However, we consider insufficient labor supply to be a minor factor at most. Rather, demand for workers seems to have weakened."
- "We therefore expect relatively subdued job growth in August. The recent massive revisions suggest that we should not read too much into the initial publication of these figures. Due to the high level of uncertainty and the lack of clear further indications, our forecast of 70,000 new jobs is close to the July figure of 73,000. The unemployment rate is likely to rise from 4.2% in July (rounded to three decimal places: 4.248%) to 4.3%. Such figures would probably confirm the Federal Reserve's recent shift towards a likely interest rate cut on September 17."

SocGen: Confirmation Of Sharp Labor Deterioration Could See 100bp Of Cuts In Short Order

- NFP growth of 68k (private 73k) and the u/e rate to hold at 4.2%.
- "The crucial question is whether the May/June NFPs were a statistical mirage (they have happened before), or whether there was in fact a step change in US labour market conditions that warrants a rapid shift in monetary policy."
- The 68k forecast would confirm "a slowdown in labour demand" but not be "indicative of a collapse."
- "There has been much discussion about the supply side given a pronounced decline in the labour force recently. After an oversized gain in January on benchmark revisions (+2.2m), the labour force has trended lower, especially from March onward, declining by 733k. This has allowed the unemployment rate to remain effectively stable at 4.1/4.2% since February. And while we expect a modest rebound in the labour force in August (with low conviction), we also see a good chance that the household survey will show an improvement in employment."
- "Hence, we expect the unemployment rate to remain at 4.2%, although given that it stood at 4.24% in July, the risks are admittedly clearly skewed towards an increase."
- AHE should "maintain their recent solid pace of gains just under 4%, albeit around a rather volatile trend in the short term. Our (and median) forecast of a 0.3% mom gain implies a drop in the year-on-year rate from 3.9% to 3.7%, but that merely reflects a strong base effect from last year's August rise of 0.5%."
- "If the labour market report reveals meaningfully stronger conditions it would imply only minimal or no easing in Fed policy in the near term, whereas confirmation of a sharp deterioration in recent months, a forceful and substantial rate cutting cycle, which in our view will amount to some 100bp in a short period of time."

Jefferies: There Could Be Something For Everyone In This Report

- NFP growth of 65k (private 70k) and the u/e rate a tenth higher at 4.3%.
- "Following Jay Powell's speech at Jackson Hole, we do not think that the stakes are particularly high regarding the probability of a September rate cut, but there will be a high degree of scrutiny on this report. If past is precedent, there should be something for everyone here in this report that will support their prior narratives."
- Re the distribution analyst estimates, "it is important to note that the cluster is tightly bunched around the +73k from last month, possibly implying a (justifiable) lack of conviction in these forecasts. In this context, we may learn more about how to interpret the data of the last few months than we will learn about August, specifically."
- "The data would have to surprise to the upside significantly to change expectations regarding a potential September rate cut, including NFP, wage growth, and the unemployment rate. An upside surprise on that scale would be difficult to trust given the magnitude of the recent revisions."
- "Since 2021, gross hiring has been slowing year to year. The seasonal adjustment factors have been up and down, but the result has been that seasonally adjusted payrolls have been declining each year as well.

The 71k increase in NFP in August 2024 was the second-smallest m/m increase of the year and the smallest for any August since 2010. The combination of these trends with the weakness in payroll growth since April 2025 portend some additional downside risk for this month's print."

- "One more note to keep in mind is that total NSA payrolls have been up 300-400k over the past 3 years in August, while private payrolls have ranged from about -100k to +50k. The difference is because many school districts begin their academic year in August and so teachers and other ancillary education workers are added back onto state & local government payrolls. We saw a lot of inconsistency and significant revisions to these state & local government jobs in June and July, so here again we have a wildcard that introduces both upside and downside risks."

CIBC: The Labor Market Isn't In Need Of An Urgent Rate Cut

- NFP growth of 65k and the unemployment rate to hold at 4.2%.
- "A shrinking labor supply pool from deportations in the US means that payrolls gains are on a slower trajectory. And our forecast for a 65K increase in headcounts in August includes weak hiring in the industries that rely the most on unauthorized workers — construction and leisure/hospitality. Manufacturing payrolls could have also remained soft due to the impact of tariffs on production costs."
- "With the labor force shrinking, that would prevent a rise in the unemployment rate, which we expect will be steady at 4.2%. Wage gains likely continued at a 0.3% pace, with an increase in hours worked still resulting in healthy aggregate labor income growth."
- "With the unemployment rate unchanged and labor income holding up, the labor market isn't in need of an urgent rate cut at this point especially given the upside to inflation from tariffs. But if the unemployment rate stays at 4.2%, a Fed cut in September would be an early move aimed as much at politics as at economics."
- "We are below the consensus on payrolls and below on the unemployment rate, with the latter factor potentially reducing the market's odds of a September cut."

RBC: Unlikely To Meet 100k Breakeven Bar This Month

- NFP growth of 64k and the u/e rate a tenth higher at 4.3%.
- "Bigger picture, our forecast continues to see a rise in the unemployment rate towards 4.6% by Q1 2026 and enough cyclical weakness in the labor market for the Federal Reserve to begin cutting (our current base case is the first cut is in December)."
- "In historical context, however, a 4.6% unemployment rate at peak would suggest very limited slack in the U.S. job market, reflecting the dichotomy of an economic slowdown coupled with a structural floor under how weak the job market can get."
- "The U.S. economy needs fewer jobs as the labor force continues to shrink off the back of mass retirements and slower immigration. Currently, our estimate of "breakeven" jobs growth is about 100k, implying the economy only needs about that amount to keep the unemployment rate stable and prevent further slack from accumulating. We likely won't meet that bar in August, however, and so the unemployment rate will rise slightly to 4.3%. If we're correct, August will mark the fourth consecutive month of below breakeven job growth, signifying a cyclical cooling of the labor market worth monitoring."
- "Job growth continues to be centered in "non-cyclical" industries, particularly health care and social assistance which have contributed about 80% of job growth on average over the past six months. Effectively, structural demands from an aging population (ironically tied to accelerated retirements which slow supply) are masking the deeper cyclical weakness in play, and so partitioning these two components out of the release will be important in this (and most coming) releases."

Goldman Sachs: Sequentially Firmer Big Data vs Govt Drag and August Negative Bias

- NFP growth of 60k (private 80k) and the u/e rate a tenth higher at 4.3%.
- "On the positive side, big data indicators indicated a sequentially firmer—albeit still soft—pace of private sector job growth."
- "On the negative side, we expect unchanged government payrolls, reflecting a 20k decline in federal government payrolls and unchanged state and local government payrolls. Additionally, August payrolls have exhibited a consistent negative bias in initial prints over the last decade."
- "We estimate that the unemployment rate edged up to 4.3% on a rounded basis (a low bar from an unrounded 4.248% in July), reflecting sequential easing in other measures of labor market slack, though see potential payback from a partial reversal of the spike in new entrant employment that boosted the unemployment rate in July."
- AHE seen rising 0.3% M/M sa, "reflecting slightly positive calendar effects."

Scotia: Dovish On NFP Growth But Hawkish On U/E Rate Vs Consensus

- NFP growth of 0k but an unemployment rate falling to 4.1%.
- “My estimates are for zero change in payrolls but a slight dip in the unemployment rate. The UR is a totally different animal drawn from the separate household survey and after that survey registered a 260k loss in jobs and a smaller 38k decline in the labour force I figure the balance may pivot the other way this time.”
- The foundation for these NFP estimates is “mostly in the seasonality. Anything less than about 310k m/m in seasonally unadjusted terms paired with last August’s nonfarm seasonal adjustment factor would reveal a drop in seasonally adjusted payrolls. Flat may be conservative.”
- “Why emphasize those numbers? Because for one thing, a 310k m/m NSA change is in line with historical norms for like months of August over time; in fact, it’s relatively high because since 2000, the median NSA change has been 252k with a mean of 272k. It could easily be weaker, possibly stronger.”
- “My judgement is that in the current context there are greater odds of the NSA change being on the softer side. Revised payrolls over recent months are clearly revealing some combination of greater unease toward hiring amid uncertainty, and data quality issues. “
- “And take it all with a grain of salt because just days later on the following Tuesday we’ll get what may be more important figures from the BLS. They will be the annual benchmark revisions to nonfarm payrolls up to March of this year. They can be large but be careful toward overly confident estimates of their size. The estimates from the Current Employment Statistics are benchmarked to the Quarterly Census of Employment and Wages (QCEW) up to March of each year. Attempts to estimate how large the revisions may be draw upon state level data which in turn can be heavily revised and therefore unreliable. Let’s just see the numbers.”
- “Next up will be when E.J. Antoni takes over as BLS Commissioner assuming the Senate doesn’t get in his way. His lack of qualifications for the role and heretical views may put us all into uncharted territory in terms of the reliability of data on US jobs and inflation.”
- “Looking ahead to future payroll reports involves bracing for October payrolls in November. An estimated 300,000 federal government workers are still on payroll but not working and face acceptance of resignation packages terminating their employment by the end of September. There are only about 84k fewer federal government employees on net so far this year (chart 10). Departures may pick up in August and September before most drop off afterward and may or may not be absorbed in other jobs.”

MNI Policy Team Insights

MNI INTERVIEW: Fed Framework Preserves Full Employment Lessons

By Evan Ryser (Sep 3, 2025)

WASHINGTON - The Federal Reserve's 2025 framework revision largely retained the 2020 shift to support a broad-based view of maximum employment so long as inflation appears to be under control, retaining the experience of the economy's long recovery from the financial crisis, Preston Mui, senior economist at Employ America, told MNI.

The Fed eliminated all three mentions of mitigating “shortfalls” in employment from its framework as expected. But rather than reverting to its earlier focus on symmetric risks to maximum employment, it now explicitly states that employment "may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability."

"They did add language that really codified some of the lessons that they learned in the 2010s about the potential costs of underestimating where full employment can go," said Mui of Employ America, a labor market advocacy and research group.

"What they've done has preserved their wider use of labor market indicators beyond the unemployment rate," Mui said. "When you listen to the Fed talk, it is definitely thinking about the labor market in very broad terms. Not just between the household survey and the establishment survey, but also people are always talking about quit rates, layoff rates, hiring rates, job openings."

NOT PREEMPTIVE

Since 2012, the FOMC has used the consensus statement as a quasi-constitutional document to describe the major issues it will consider when setting monetary policy. Fed Chair Powell set a benchmark to revisit the document every five years, with the 2020 revision taking the view that a robust job market can be sustained without causing an outbreak of inflation.

In the late 2010s, the Fed had a lot of trouble over the years deciding how hot to let the job market run before raising interest rates.

Against expectations, the Fed did not walk away from that view and won’t automatically raise interest rates when the job market is hot. Additionally, the Fed will continue to rely on a broad suite of labor market indicators, Mui said.

"Interpreting where full employment is, its a moving target, and trying to figure out where it is and where it should be is almost more art than science, and it requires a lot of judgment in thinking about when to use various indicators and when to not use it," he added.

Relying on more than just the unemployment rate has served the Fed well in recent years, Mui said. "The framework changes don't do away with that. They preserve that impulse and I think that's good."

SUPPLY HEADWINDS

The biggest misstep in the 2025 framework is that it lacked any changes around the way that the Fed intends to deal with supply shocks that look to become more frequent, Mui said. (See: MNI: Fed To Examine If Framework Robust To Any Scenario)

Chair Powell in May said the U.S. may be entering a period of "more frequent, and potentially more persistent, supply shocks — a difficult challenge for the economy and for central banks." Central bankers around the world have noted the increased likelihood of supply headwinds that can boost inflation and suppress growth at the same time.

The Fed now brought back 2012 language on taking a "balanced approach" when its employment and inflation goals are in conflict, saying it will take into account the extent of departures from the goals and the potentially different time horizons over which each is projected to return to goal.

"There's a missed opportunity to think harder about the way that they're going to deal with supply driven inflation, which will probably be relevant over the next few years," Mui said. "The effect of monetary policy on the supply side is underrated and kind of a dynamic thing that they have to take into account."

MNI INTERVIEW: Fed Cut Is No Manufacturing Silver Bullet - ISM

By Evan Ryser (Sep 2, 2025)

WASHINGTON - U.S. manufacturing will remain in contraction with high prices and a declining workforce, and an interest rate cut from the Federal Reserve at its September meeting is unlikely to help, Institute for Supply Management manufacturing chair Susan Spence told MNI.

"Because you have this unprecedented tariff whiplash with input prices possibly going up double digits depending on the commodity and the country, I'm not certain that the interest rate cut is going to be a silver bullet," she said in an interview.

In more normal times, a rate cut would make it easier for firms to embark on large capital projects, she said. But in an of "huge uncertainty" around trade policy "it feels like it's being overshadowed and maybe isn't going to have the impact that it would have in the past." (See: MNI POLICY: Fed Takes Measured Approach To Post-September Cuts)

"If you're in an industry where your input costs could go up 25 or 30% and your order is flat to down, I'm not certain an interest cut, to make a capital investment, is going to (help) in this environment."

The ISM manufacturing PMI increased by 0.7pt to 48.7 in August, slightly below expectations for a larger increase. It was the sixth consecutive monthly reading between 48 and 49. The report showed new orders increasing 4.3pts to 51.4, employment edging 0.4pt higher to 43.8 and the production component declined 3.6pts to 47.8. Prices remained high at 63.7.

SOFT DEMAND

The new orders gauge in August posted the best result since January but survey respondents were gloomy. "The topline takeaway with only a 0.7 percentage point increase is it was really driven by the new orders subindex," Spence said.

"My feeling is the new order (reading) is not a trend, but a blip. We still have the other demand indicators backlog," she said. "I don't believe that the new order increase driving a slight increase in PMI is anything to get very excited about, because of everything else in the indexes, and most importantly the sentiment."

Spence said she does not expect the new orders subindex to improve in coming months. "I don't see it getting a whole lot better than where it is now until the certainty starts to happen," she said referring to trade policy. "So, I think we're in it for a while."

"We still have this month 89% of our respondents saying that tariffs and the uncertainty and the whiplash has got them frozen. They aren't seeing the demand. In fact, they're seeing soft demand," Spence said. "Panelists are still saying that demand is still softening."

Meanwhile, the employment index inched up slightly but remained at a contractionary 43.8, the seventh month of readings below 50. Spence noted that for every survey respondent comment related to hiring, there were four regarding reducing head count. "Layoffs are still going on."

MNI INTERVIEW: Tariff Inflation Impact Broadens- ATL Fed Study

By Jean Yung (Aug 29, 2025)

WASHINGTON - Price pressures from President Donald Trump's tariffs show signs of broadening as businesses tell the Federal Reserve they plan to raise prices faster over the next year whether or not they're directly affected by tariffs, Brent Meyer and David Wiczer of the Atlanta Fed told MNI.

The results of some 1,000 firms surveyed by the Atlanta Fed indicate the vast majority of executives expect faster price growth over the next year. Firms directly exposed to tariffs increased their year-ahead price growth expectations by 0.7 ppt. But even companies not directly affected but still operate in industries that are highly exposed to tariffs anticipated 0.3 pp higher price growth, according to Meyer and Wiczer's analysis of Atlanta Fed’s Survey of Business Uncertainty.

"It's evidence of a broadening out of impact beyond those directly impacted," Meyer said in an interview, warning the trend is reminiscent of early 2021, when price spikes on products subject to shipping bottlenecks quickly spread everywhere.

"That's the first red flag you'd wave if you're looking into whether there's an inflationary impulse."

EVERYONE'S DOING IT

Since the end of last year, firms' expectations for prices and costs have climbed meaningfully, Wiczer said.

"What one worries about is firms that are not themselves experiencing cost shock from tariffs but knowing their competitors had a price shock, might take that as leeway to raise their own prices. That would be the way in which some companies increasing prices affects overall inflation," he said.

A recent anecdote from a domestic cheese manufacturer neatly illustrates the effect, Meyer said. A supermarket selling both domestic and Swiss cheeses spread the 39% tariff on the latter across its products, as it said it wouldn't be able to pass along a dramatic cost increase on just one product range.

MARKET SHARE CONCERN

A thought experiment comparing the tariff effect on import-reliant firms in relatively unexposed industries with firms not themselves exposed but in an industry that imports heavily found a 0.2 pp gap in price growth expectations.

"It's sizeable in the sense that competitive pressure is restraining tariff price growth a little bit, but exceeding that is everyone having this cost pressure," Wiczer said. "If my neighbors did, then I can raise prices."

Compared to Covid, the price and cost expectations boost from tariffs is on a much smaller scale, and the question of how reluctant firms may be to implement price hikes with consumers less well off than a few years earlier remains unknown, Meyer said, adding that so far firms surveyed haven't reported a meaningful decline in demand.

"There's a lot of uncertainty. This on-again-off-again imposition of tariffs means what feeds through won't be a one-time level shift, and we could get drips and drabs over a long period of time before we see the fulsome tariff impact," Meyer said.

"It's easy to ignore an outsize one-month increase. When we see these things pile up over time, it looks a lot like inflation." (See: MNI POLICY: Fed Takes Measured Approach To Post-September Cuts)

MNI INTERVIEW: Inflation Too High For Fed Rate Cuts - Hoenig

By Pedro Nicolaci da Costa (Aug 28, 2025)

WASHINGTON - The Federal Reserve's rush to cut interest rates next month looks premature given still-elevated inflation rates and an economic and employment picture that is largely stable, former Kansas City Fed President Thomas Hoenig told MNI.

The FOMC "should not be cutting given the stability in the economy generally – unemployment very stable, inflation well above the 2% target and well above price stability – and that's both PCE and CPI," Hoenig said in an interview Thursday.

"This is a steady state. Real interest rates are pretty close to neutral. I think you are risking a less stable market if you lower rates."

Coupled with threats to Fed independence, that volatility could manifest itself in the form of higher longer-run borrowing costs even if the Fed does push short-term rates down, as the White House has relentlessly pressured the central bank to do.

“They want to lower interest rates so you can lower mortgage rates. But the effect would be, I think, to increase the demand for housing, increase the demand for capital. To do that, I don't know that would bring interest rates down especially in the long end. We saw what happened a year ago,” said Hoenig, now a senior fellow at the Mercatus Center.

DEFICIT INFLATION

Hoenig said there will be additional inflation from tariffs, which he would have been willing to look through as a policymaker. However, he’s worried about a ballooning budget deficit accentuated by the latest tax cut legislation.

“To me the real issue is the government is spending USD7 trillion and taking in revenues of USD5 trillion. So there's a new USD2 trillion of debt added, and that tends to be inflationary, especially around the subsidies and the tax cuts and so forth,” he said.

Savings from cuts to Medicaid and increased tariff revenues pale in comparison with the extent of the budget hole, he said.

“So you've got an expansionary fiscal policy in place right now that's going to have more effect on inflation than the tariffs longer term.”

FED INDEPENDENCE

Like many others in the central banking community, Hoenig is concerned about threats to Fed independence given unprecedented public attacks on the institutions from President Donald Trump.

Trump will get to appoint Fed Chair Jerome Powell’s replacement next year and has already nominated Council of Economic Advisors Chair Stephen Miran as his first second-term appointee to the Fed Board of Governors.

“If you get a majority of the Board listening to Trump as a policymaker, then you really do have an issue with inflationary expectations becoming unbound and uncertainty rising. That would have a major effect on the bond market,” Hoenig said.

He said there’s a “high probability” the administration will try to control not only the Board but the regional Fed banks as well, by using board members’ veto powers on the reappointment of Fed presidents early next year.

“The board of directors of Fed banks will probably put their names in, but the Board of Governors can reject that,” he said.

MNI INTERVIEW: Low Inflation Ex-Tariffs Support Fed Cuts-Haslag

By Pedro Nicolaci da Costa (Aug 28, 2025)

WASHINGTON - Federal Reserve officials have room to reduce interest rates starting next month because inflation is already at or below target if not for the one-time tariff shock, but borrowing costs are just two or three quarter point cuts away from neutral so any further easing will be cautious, former Dallas Fed economist Joseph Haslag told MNI.

“It'll be interesting to see September. I can't imagine it would be anything other than 25 basis points, but I could imagine a 50, and that would still leave us in a position where we're probably a little smidgen tight in terms of the stance of monetary policy,” said Haslag in an interview.

After that, he sees a “50-50 chance that we have another 25 basis point cut before 2025 ends.”

Haslag, also a former Kansas City Fed visiting scholar, thinks the Fed is well-advised to begin cutting in September even though he thinks key inflation measures will hover between 2.5%-3.5% in coming months.

That’s because he believes underlying inflation is moderating and that the hit from tariffs will be fleeting, an argument also made by Fed Governor Chris Waller after dissenting in favor of a July cut.

“If it weren’t for the whole tariff business, I think we'd already be in the 2% or maybe even a little bit below stage. I think what we're seeing now is the slow trickle of the pass through of tariffs,” he said. (See: MNI POLICY: Fed Takes Measured Approach To Post-September Cuts)

LACKLUSTER GROWTH

Seeing little catalyst for a short-term burst of renewed economic expansion, Haslag expects GDP growth to hover near the soft first half clip of 1.5%, perhaps a bit weaker, for the remainder of the year.

“I don't think we're going to be at 5% unemployment before the end of the year, but I think we're going to move up from 4.2% and it's going to be edging up over the next six to nine months,” he said.

Fed Chair Jerome Powell appeared to put a September rate cut on the table in last week’s Jackson Hole speech, and his case was based importantly on perceived downside risks to the labor market after major revisions to recent data.

Haslag said he’s concerned about the quality of economic data based on the scale of recent revisions.

"Data quality is pretty questionable,” he said. “Maybe the BLS is a little bit behind by doing phone surveys the way they do. It’s fair to say that it's time to ask is there a better method? Because this one doesn't seem to be working all that well."