mni

All Signal, No Noise

MARKET ANALYSIS

U.S. Employment Insight: Aug 2025

MNI View: Sept FOMC In Focus As Jobs Stall

Aug 4, 2025 - By Chris Harrison

Quick Take: Huge Negative Payroll Revisions Dominate Reaction But U/E Rate Still Roughly Rangebound

- The weak payrolls report dominated what had been a decent-sized hawkish reaction from a patient Fed Chair Powell not giving a nod to a September rate cut at Wednesday's FOMC press conference.
- Nonfarm payrolls growth underwhelmed at 73k in July (cons 104k) but the major headline was the -258k two-month downward revision, of which -139k came from the private sector and -119k from the public sector. Outside of April 2020, that's the largest two-month downward revision in at least forty-five years.
- We caution however that whilst jobs growth has soured sharply, it's doing so along with a significant slowing in labor supply under immigration curbs.
- As such, the unemployment rate may have technically ticked up to a new cycle high of 4.248% (exceeding the 4.244% in May) but it continues to roughly plateau in the 4.0-4.25% range seen since last July.
- The median FOMC forecast from the June SEP had the unemployment rate increasing to an average 4.5% in 4Q25 as part of forecast with two rate cuts in 2025 so further deterioration would be expected.
- A note on the latest initial jobless claims data, which are back at 2019 averages, a period when the unemployment rate averaged 3.7%. Other high profile labor indicators were mixed, with ADP stronger than expected and with broad-based sequential improvements whilst the less timely JOLTS report was soft.
- The weak payrolls report prompted an extraordinary response from President Trump, directing his team to fire BLS Commissioner Erika McEntarfer. It's a broadening out of criticism beyond the Fed's Powell and its Board. See the MNI Policy Team's timely look at the outlook for the BLS below.
- First post-FOMC and NFP reaction from FOMC members has been measured.
- Rate cut expectations have surged following the report with a helping hand from a soft ISM manufacturing report also for July. There are now 22bp of cuts priced for the next meeting in September vs 12bp pre-NFP and 61bp to year-end vs 35bp. Analysts are less convinced on Sept cuts at this stage, at least on balance.

CONTENTS

Payrolls Summary Statistics For July 2025

	Actual	Cons.	Surprise on mth	2-mth Rev	Jun	May	Net Surprise
Monthly growth (000s)							
NFP	73	104	-31	-258	-133	-125	-289
Private	83	100	-17	-139	-71	-68	-156

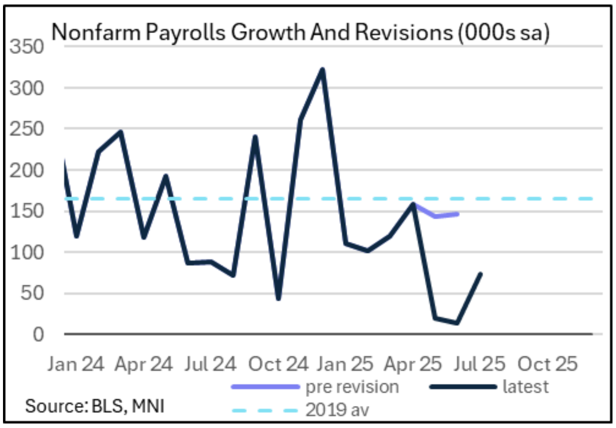
	Actual	Cons.	Prior mth	Cycle low		2019 av
U/E rate (%)	4.25	4.2	4.12	3.45	Apr'23	3.67

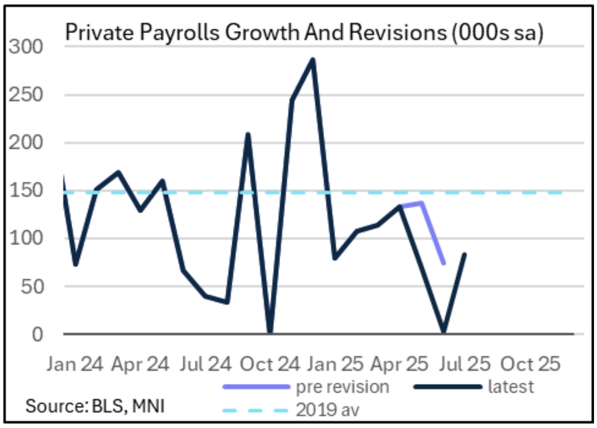
	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.33	0.3	3.91	3.8

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

Huge Downward Revisions For Payrolls Set The Dovish Tone

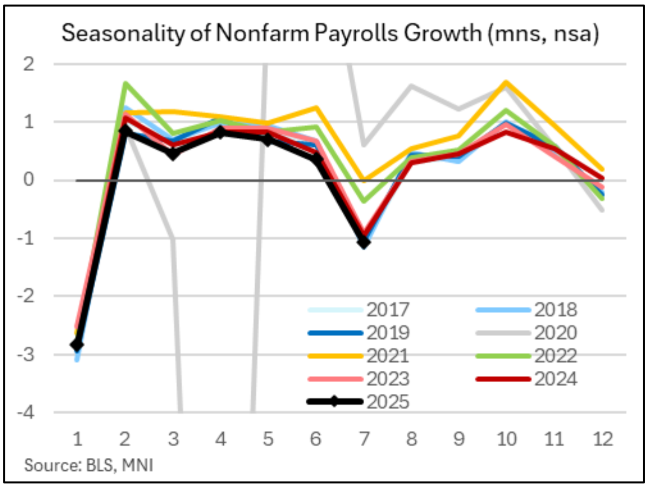
- Nonfarm payrolls growth was weaker than expected in July at 73k (cons 104k) after huge downward revisions in both June (-133k to just 14k) and May (-125k to 19k).
- That leaves a three-month average of just 35k or a six-month average of 81k. These are the lowest averages since mid-2020.
- The downward revisions came from a combination of large shifts in both private and public payrolls, equally spread over both May and June.
- Private payrolls saw a more limited miss with 83k (cons 100k) and a two-month downward revision of -139k. What was seen at 74k for private payrolls in last month's release is now just 3k.
- That leaves a three-month average of 52k and six-month of 85k, with the three-month last lower in Aug 2024 after surprise weakness last summer as well.
- Public payrolls fell -10k (federal -12k, state +5k and local -3k) after a two-month revision of -119k.
- As discussed in our payrolls preview, with estimates of the long-run breakeven pace of payroll gains thought to be in the 100k region, shorter-term measures could possibly start to dip below this. Deutsche Bank on the matter (who also see it currently at 100k per month at present): "The Trump Administration's immigration policies are likely to slow net immigration flows, and potentially could lead to an outright decrease in the foreign-born population. Correspondingly, the breakeven rate of payroll gains could be even lower, closer to 50k per month. As such, even modest payroll gains could have the effect of tightening the labor market."
- However, there is an added consideration from potential downward revisions implied by QCEW data. A dovish Fed Governor Waller estimated earlier last week that monthly private payrolls growth was 60k lower. As such, what had been a 74k increase in June seen as a broad stalling would be negative considering it's now reported at just 3k. Indeed, the three-month average of 52k through May-July in latest data would imply a stalling in private payrolls growth but these are still early days for revisions, both regular and benchmark estimates. You can see more from Waller later in this report (see here).





Seasonal Factors Play A Large Role In Revisions, NSA Jobs Growth Continues Relative Moderation

- Changes in seasonal factors played a significant role in these huge two-month downward revisions, especially in May when non-seasonally adjusted nonfarm payrolls growth was revised from 731k to 703k.
- June's downward revision looks more 'genuine' however, revised down from 517k with last months initial release to currently 363k.
- Indeed, and we touch on this in full later on, the CEA's Miran estimated that "60% of the overall revisions were due to quirks in the seasonal adjustment process".
- Looking at the non-seasonally adjusted data to try and limit some seasonal adjustment noise, there has been a clear deterioration in the labor market. July saw -1.07mln jobs lost vs -0.75mln averaged in Julys in 2022-24 and -1.1mln in Julys in 2017-19. 2025 NSA jobs gains have been weaker than 2024 in most months so far this year

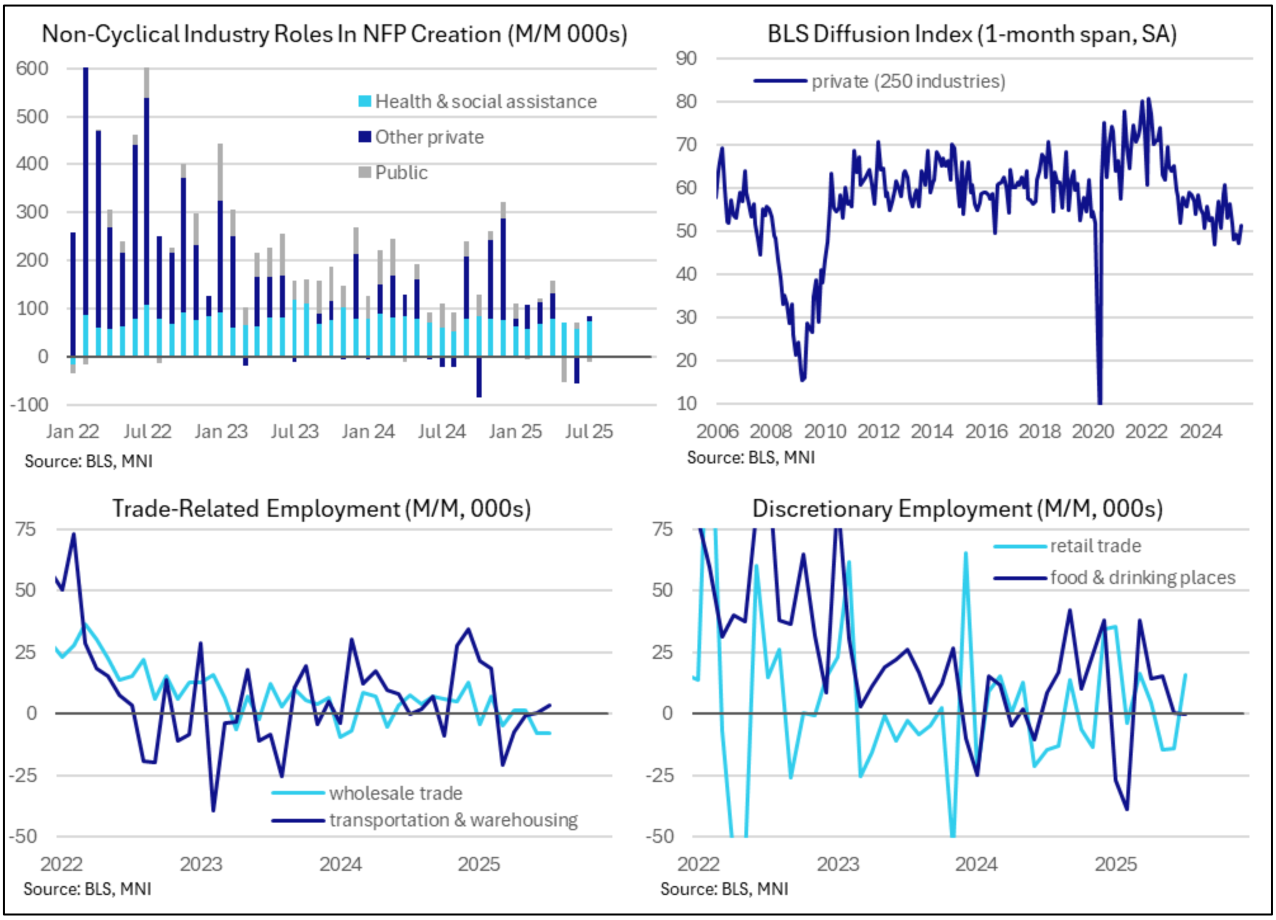


although it's notable in July, a typical firing month in what's generally still perceived as a "low fire, low hire" labor market.

- May and especially June are more clearly weak compared to recent trends: May saw 703k (vs 844k 22-24 and 816k 17-19) whilst June saw 363k (vs 680k 22-24 and 641k 17-19).
- Revisions will have to continue to be watched closely as new information is available.

Non-Health Private Payrolls Stalled In Three Months To July

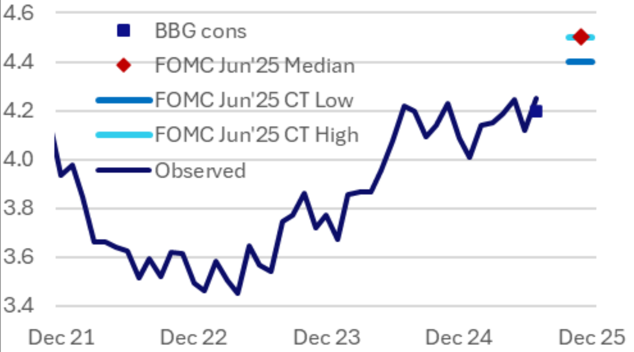
- Private payrolls increased 83k (sa) in July after a heavy two-month downward revision of -139k which saw a particularly soft 3k in June.
- Private payrolls growth remains particularly reliant on the cyclically insensitive health & social assistance category, which increased 73k after 59k in June.
- Private payrolls ex health & social assistance only increased 10k in July after -56k in June and -3k in May.
- Those large downward revisions have changed understanding of recent trends within the details as well, with the one-month diffusion index improving to 51.2% in July after three months sub-50% including 47.2% in July (lowest since 46.8% in Jul 2024, lowest since Mar/Apr 2020 and before that early 2010).
- Put differently, slightly more of the 250 private sector industries increased on the month in July than those that decreased, after three months of net declines.
- Within the aggregate industries, retail trade led non-health increases on the month with 16k after two months averaging -15k, whilst manufacturing (-11k), wholesale trade (-8k) and professional & business services (-14k) remained under pressure.
- Also of note are discretionary areas such as "food & drinking places" where job gains have dried up, with two months of no job creation.



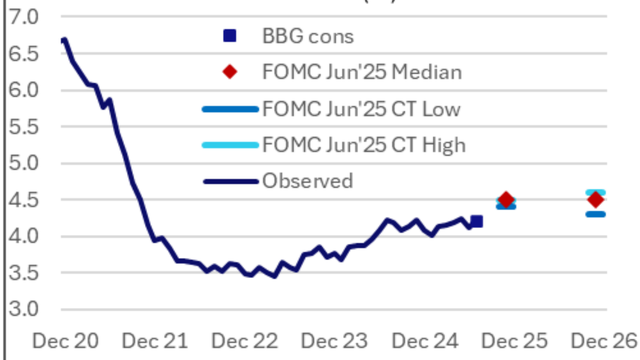
Unemployment Rate Technically At Recent High But Largely Rangebound

On the household survey side of the payrolls report, the unrounded unemployment rate bounced from a surprise decline to poke to a new cycle high in July at 4.248%. An abrupt slowdown in labor supply is helping keep this rate from breaking more materially out of the recent range however.

- As posted shortly after the release, the unrounded unemployment rate came in on the high side in July at 4.248% (cons 4.2 with a few looking for 4.1).
- It lifts from the surprisingly low 4.117% in June to poke above the 4.244% in May for technically a new cycle high.
- More broadly though, it roughly keeps to a 4-4.25% range seen since last summer. Recall that last July saw a surprise lift to 4.25% which was then revised down to 4.22% in annual revisions.
- It will need a sharper deterioration in the u/e rate in the final six months of the year to reach the FOMC's June Q4 median projection of 4.5% than what is currently implied in the past few months of the household survey. The fear of course is if the much weaker than expected trend in payrolls after today's release continues and outpaces the decline in labor supply ahead.
- The drivers behind latest moves: the number of unemployed increased 221k in July after -222k in June whilst employment fell 260k after a tepid 93k increase in June.
- That nets 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.



*Low and high range of Central Tendency. Showing Q4 average
Source: BLS, Federal Reserve, MNI



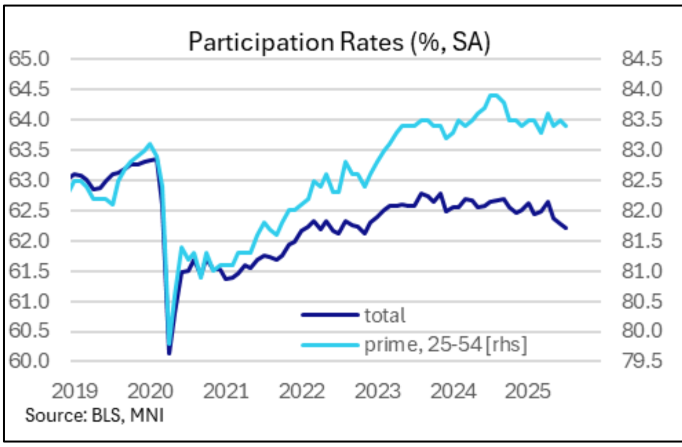
*Low and high range of Central Tendency. Showing Q4 average
Source: BLS, Federal Reserve, MNI

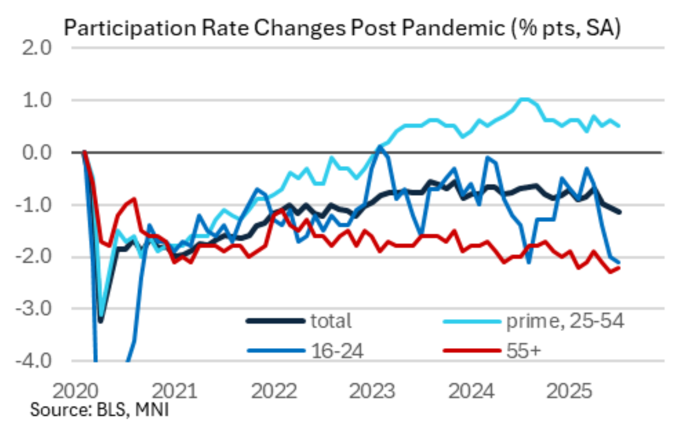
Another Participation Rate Decline Helps Limit U/E Rate Increase

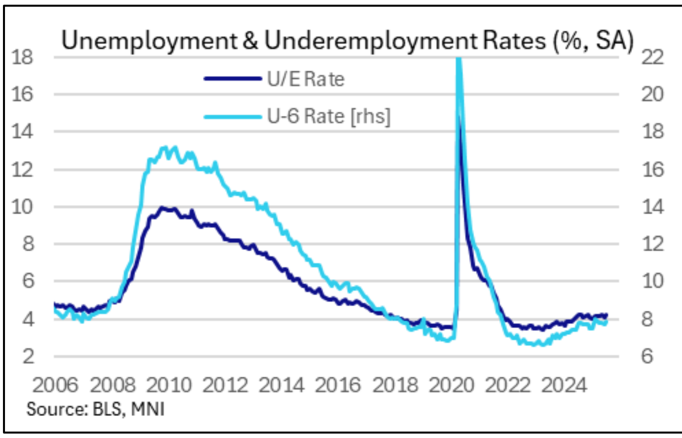
The participation rate surprisingly declined a little further in July, helping limit the unemployment rate climb on the month. The underemployment and 25-54 unemployment rates both increased on the month but remain just below cycle highs unlike the overall unemployment rate which poked above May's latest high.

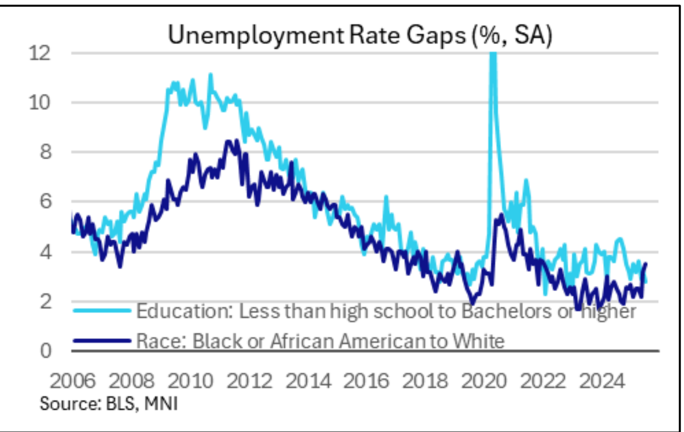
- The rise in the unemployment rate in July came along with the participation rate surprisingly falling further to 62.22% (cons 62.3%) after 62.28% in June for its lowest since late 2022.
- It marks a sizeable 0.4pp decline from 62.64% in April thanks to aforementioned heavy declines in the labor supply, albeit ones that petered out most recently in July.
- This latest decline in participation was led by the prime 25-54 falling back a tenth to 83.4% (broadly plateauing around 83.5% since Oct 2024) and 16-24 year olds ticking 0.1pp lower after -0.6pp in June to 54.8% (hitting its lowest since Sep 2020). 55+ participation meanwhile nudged 0.1pp higher to 38.1% after what had been its lowest since 2007.
- Back to unemployment rates, the 25-54 cohort saw a more pronounced bounce in July to 3.58% after 3.32% for a little above the 3.55% in May. However, unlike the overall rate at cycle highs, it's still below recent highs seen in Nov 2024 (3.68%) and Jul 2024 (3.63%).
- Looking at broader measures of unemployment, those working part-time for economic reasons also bounced 219k after -159k in June, the strongest increase since a large 460k February. This helped the underemployment rate climb two tenths to 7.9%, although unlike the main unemployment rate, this is below the 8.0% seen in February on account of that jump in economic part-time positions.

- Different sectors are experiencing the labor market weakening at different paces, with the gap of Black/African American to White unemployment rate widening strongly again to 3.5pps for its highest since Jan 2022.





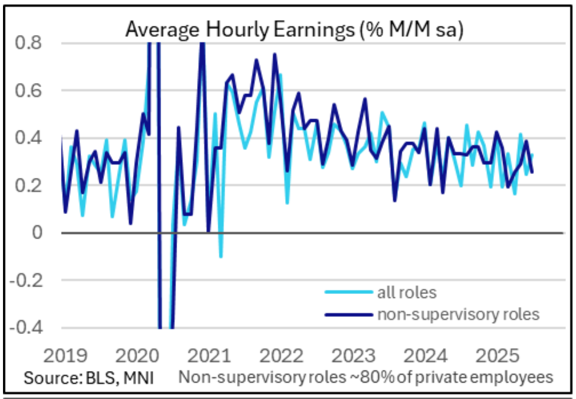


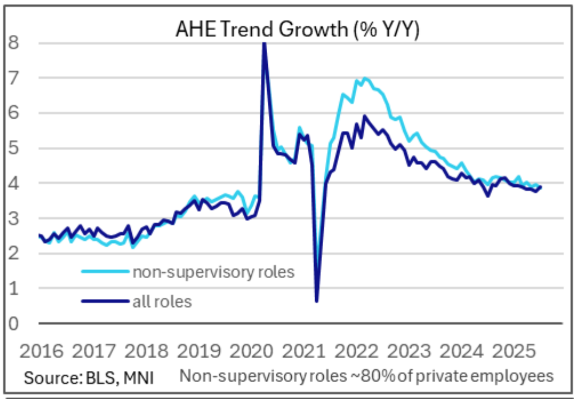


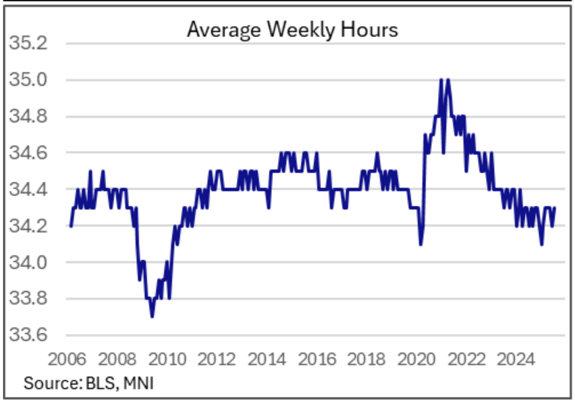
Earnings The Only 'Strong' Side Of Payrolls Report

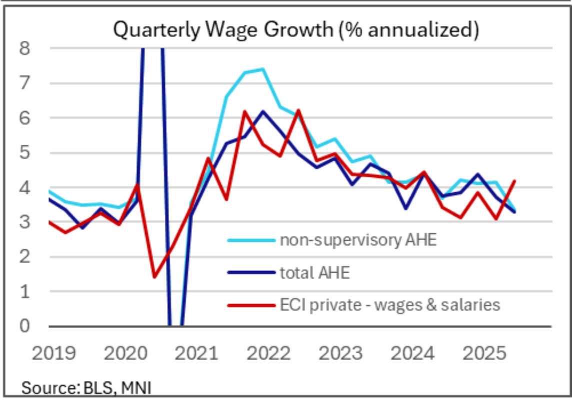
The earnings side of the nonfarm payrolls report was the only area that surprised positively in July. It adds to Thursday's stronger than expected ECI for Q2 although the recent souring in payrolls growth will likely be expected to dampen wage growth ahead if its maintained.

- The earnings side of the July report was the only area to moderately surprise in a hawkish direction, and it was clearly dominated by softer cues from payrolls growth.
- Nevertheless, average hourly earnings growth accelerated to 0.33% M/M (cons 0.3) after an upward revised 0.25% (initial 0.22) in June and 0.42% (initial 0.39%) in May.
- That left AHE growth at 3.91% Y/Y (cons 3.8) for its highest since February.
- Within this, the non-supervisory category saw 0.26% M/M after a solidly upward revised 0.385% (initial 0.29%) in June that more than offset the downward revised 0.29% (initial 0.32%) in May.
- That left the non-supervisory Y/Y at a similar 3.89% although that's its softest since early 2021.
- This mild upside surprise came despite 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.
- This relatively stronger wage angle follows yesterday's stronger than expected Employment Cost Index for Q2, which at 0.94% Q/Q was a reasonable beat of 0.8% consensus considering it's a non-annualized rate. The 3.8% annualized is the fastest quarterly rate since 1Q24, led by the private sector wages & salaries component rising 4.2%.









Weak Jobs Report Prompts Extraordinary Reaction From President Trump

@realDonaldTrump - I was just informed that our Country's "Jobs Numbers" are being produced by a Biden Appointee, Dr. Erika McEntarfer, the Commissioner of Labor Statistics, who faked the Jobs Numbers before the Election to try and boost Kamala's chances of Victory. This is the same Bureau of Labor Statistics that overstated the Jobs Growth in March 2024 by approximately 818,000 and, then again, right before the 2024 Presidential Election, in August and September, by 112,000. These were Records — No one can be that wrong? We need accurate Jobs Numbers. I have directed my Team to fire this Biden Political Appointee, IMMEDIATELY. She will be replaced with someone much more competent and qualified. Important numbers like this must be fair and accurate, they can't be manipulated for political purposes. McEntarfer said there were only 73,000 Jobs added (a shock!) but, more importantly, that a major mistake was made by them, 258,000 Jobs downward, in the prior two months. Similar things happened in the first part of the year, always to the negative. The Economy is BOOMING under "TRUMP" despite a Fed that also plays games, this time with Interest Rates, where they lowered them twice, and substantially, just before the Presidential Election, I assume in the hopes of getting "Kamala" elected – How did that work out? Jerome "Too Late" Powell should also be put "out to pasture." Thank you for your attention to this matter!

CEA's Miran Downplays Jobs Data, Cites Positive Trade Fiscal Developments

White House Council of Economic Advisers Chair Stephen Miran told reporters a short time ago that there were elements of today's jobs report that the administration "didn't love" but suggested that positive developments on trade and 'One Big Beautiful Bill' will be "massive tail winds for the economy."

- Miran says that neither the investment boost from trade deals, nor the incentives from the OBBB were in place for "either of the months that experienced downward revisions to the payroll data," but "they are now."
- Miran: "The revisions were obviously not what we wanted to see." Says there are three things to note: "(1) 60% of the overall revisions were due to quirks in the seasonal adjustment process (2) Border polices have led to a decline in over a million foreign-born jobs [which] is ultimately going to show up (3) There was uncertainty around tariffs that was critical to creating the leverage that the president used to accomplish some of the most one-sided trade deals in history..."

A Measured Response From Initial Fedspeak

Bostic Still Sees Only One Cut This Year Despite Significant Jobs Data

Atlanta Fed's Bostic (non-voter) speaking on CNBC notes the significant revisions in today's nonfarm payrolls report but warns that the Fed still needs to determine what the trend of hiring will be. He hasn't changed his view on rates and still expects one cut this year.

Headlines from Reuters:

- "FED'S BOSTIC: THE JOBS DATA WAS SIGNIFICANT, REVISIONS WERE BIGGER STORY -CNBC
- FED'S BOSTIC: JOBS MARKET SLOWING FROM STRONG LEVELS
- FED'S BOSTIC: STILL NEED TO DETERMINE WHAT TREND OF HIRING WILL BE
- ATLANTA FED PRESIDENT BOSTIC: RISK TO INFLATION MUCH GREATER THAN RISK TO EMPLOYMENT- CNBC INTERVIEW" - RTRS

- "*BOSTIC: IN MANY REGARDS, LABOR MARKET STILL LOOKS GOOD
- *BOSTIC: MIGHT TAKE 12 MONTHS FOR BUSINESSES TO ADJUST PRICING
- *BOSTIC: DON'T THINK I'D HAVE CHANGED THIS WEEK'S FED DECISION" - bbg

- "FED'S BOSTIC: FOR TODAY, STILL EXPECTS ONE CUT THIS YEAR
- FED'S BOSTIC: OPEN TO CHANGING FED VIEW IF DATA SUPPORTS IT
- FED'S BOSTIC: NEED TO SEE HOW THINGS EVOLVE OVER COMING MONTHS" - Reuters

Hammack Still Sees Healthy Labor Market

Cleveland Fed’s Hammack (’26 voter, hawk) speaking on Bloomberg TV said the US labor market still appears healthy, though fresh jobs numbers released Friday constituted a “disappointing report to be sure.”

- "SHOULD BE WATCHING LABOR MARKET VERY CAREFULLY
- COULD SEE SOME WEAKNESS ON LABOR SIDE OF PICTURE
- I FEEL CONFIDENT WITH DECISION WE MADE THIS WEEK
- INFLATION MISS HAS BEEN BIGGER, LASTED LONGER" – all bbg

STIR: September Cut Swings Into View But Sizeable Share of Analysts Need More Persuading

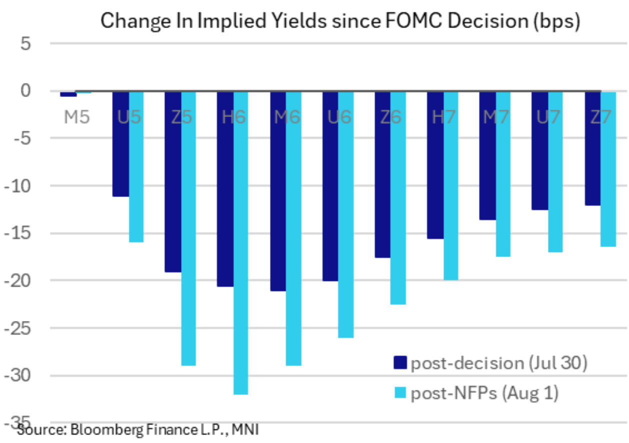
- Fed Funds implied rates have tumbled since the payrolls report, with an added tailwind from a weak ISM manufacturing report.
- There are now 22bp of cuts priced for the next FOMC decision on Sept 17 vs 12bp before the release and 15.5bp prior to Wednesday’s FOMC decision.
- Cumulative cuts from 4.33% effective: 22bp Sep, 41bp Oct, 61.5bp Dec, 73bp Jan and 85bp Mar.
- The 61bp of cuts to year-end compares with a median 50bp from June’s SEP. Considering the unemployment rate of 4.25% in July vs the 4.5% seen averaging in 4Q25 in those same projections, it shouldn’t be surprisingly that Friday’s first reaction to the payrolls report was measured.
- The SOFR implied terminal yield of 3.045% (SFRH7) is 2bp higher on the day for still 20bp lower since payrolls.

FOMC-dated Fed Funds futures implied rates

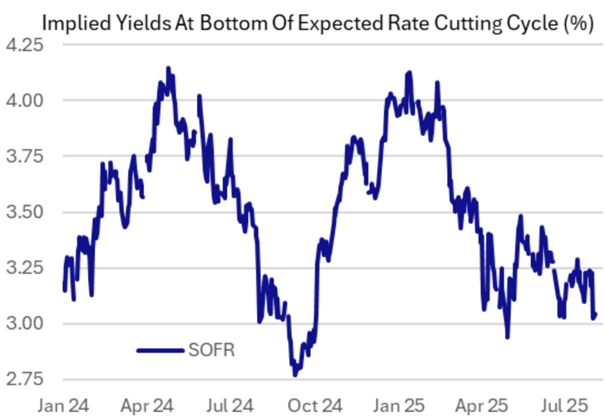
Meeting	Latest			pre NFP (Aug 1)			*chg in rate*	pre FOMC decision (Jul 30)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Sep'25	4.11	-22.2	-22.2	4.21	-12.0	-12.0	*-10.2*	4.18	-15.3	-15.3	*-6.9*
Oct'25	3.92	-19.0	-41.2	4.12	-9	-20.8	*-20.4*	4.06	-12	-27	*-13.9*
Dec'25	3.72	-20.0	-61.2	3.98	-15	-35.3	*-25.9*	3.89	-17	-44	*-17.1*
Jan'26	3.60	-11.6	-72.8	3.90	-7	-42.8	*-30.0*	3.80	-9	-53	*-20.1*
Mar'26	3.48	-12.3	-85.1	3.79	-11	-54.2	*-30.9*	3.68	-12	-65	*-20.3*

Source: Bloomberg Finance L.P., MNI.

Cumulative cuts for Dec 2025 FOMC. Source: Bloomberg Finance L.P. (Times as GMT)



Source: Bloomberg Finance L.P., MNI



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

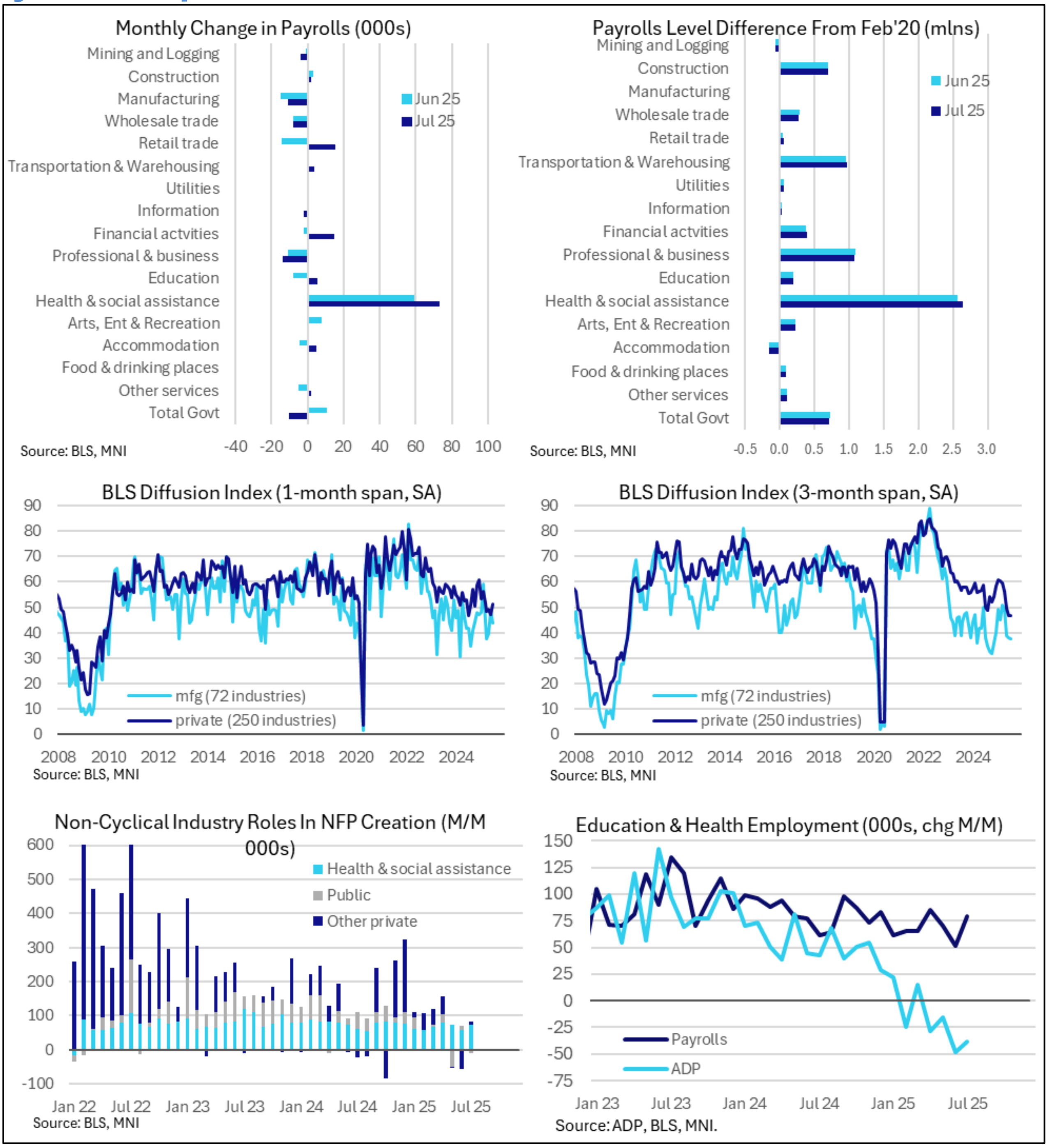
Analysts Calling For 25bp Cut In September – No View Changes But Standard Chartered Discuss 50bp

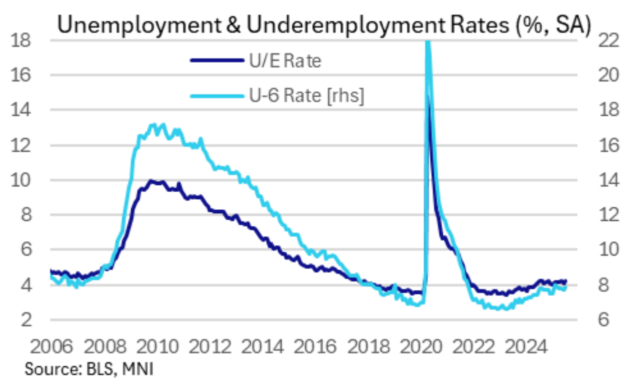
BMO	"A notable deterioration in U.S. labor market conditions appears to be underway. We have been forecasting this since the tariff and trade war erupted this Spring and more restrictive immigration restrictions were put in place. […] A September cut remains our forecast."
Citi	"Markets and Fed officials should now more closely mirror our view that a low-hiring labor market, together with slowing growth create downside risk to employment and reduce the risk of persistent inflation. We expect 25bp rate cuts to resume in September and continue at each meeting until March of next year […] Risks are balanced toward more rapid and/or deeper cuts."
Commerzbank	"An interest rate cut at the next meeting in September – still our forecast – is becoming more likely again in light of today's figures. This applies regardless of political pressure from the White House."
StanChart	"With the labour market now far from "solid" (as Fed Chair Powell described it after the 30 July FOMC), the Fed may face heavy criticism for falling behind the curve, even if it cuts in September. We do not rule out a larger 50bps move if the labour market weakens further in the coming months. Powell's hawkishness at the FOMC may well have been toned down if the downward NFP revisions had been available at the time of the meeting."
Wells Fargo	Prior base case for 25bp cuts in Sep, Oct and Dec before on hold through 2026. "Based on today's data, we are inclined to leave that projection unchanged for the time being. Given both the downside risks to the Fed's employment mandate and the upside risks to inflation, we think the Committee will move monetary policy toward a more neutral stance in the coming months to better reflect the two-way risks to the economy."

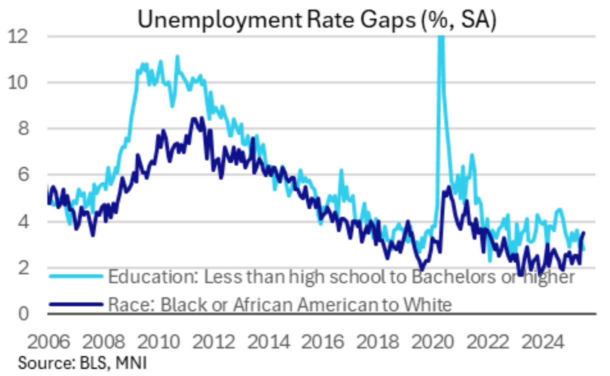
Other Analyst Calls – Some Starting To Question More Hawkish Views

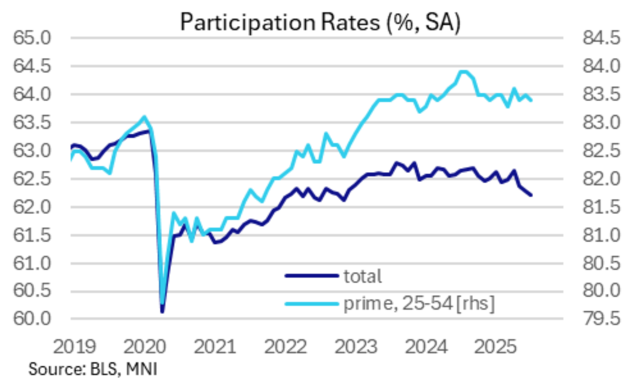
Berenberg	“With the unemployment rate at 4.2% and the vacancy-to-unemployed ratio back to its healthy pre-pandemic level, today’s weak report will not necessarily force the Fed to cut rates in support of the employment side of its mandate.”
BofA	“Our base case since January has been that the Fed won't cut rates this year. However, we have been arguing that the most likely alternate scenario is that labor market deterioration will force the Fed into "bad cuts", which could play out at a pace of at least 25bp per meeting. The massive downward revision to payrolls in the July jobs report increases the probability of this scenario. […] But as much as the upcoming data, the Fed's Sep decision will depend on its willingness to lean into the idea that the weakness in payrolls has been driven by labor supply.”
CIBC	“Today's data are telling us that the facts are not only changing, they have been revised. We are mulling over our Fed call of one hike in December this year. If prices remain contained and activity data show this isn't just a temporary soft patch, it's possible the doves in the committee could win out over the hawks in the coming months.”
ING	“If we get another soft jobs report on 5 September, we would have to expect a rate cut later that month given the Fed’s dual mandate. This would heighten the chances of follow up 25bp cuts in October and December despite a temporary rise in inflation on tariffs.”
JPMorgan	“The hints of softness in today’s report will likely embolden the doves on the FOMC, as reflected in market pricing for a cut at the September meeting. Even so, we’re sticking to our guns in looking for the next cut in December; price and wage inflation risks are still tilted to the upside.”
Natixis	“We maintain our call for the cutting cycle to re-start in October but acknowledge that lower passthrough inflation or additional labor weakness in August tilt the risks to a September cut.”
Nomura	“Still see first cut in Dec. Today’s report raises the risk of earlier Fed cuts, but, in our view, a sharper rise in the unemployment rate or signs of stress in layoffs or credit conditions would be necessary for the Fed to overlook near- and medium-term inflation risks.”
Scotia	“Markets assumed that the Fed will rapidly shift toward easing on the back of numbers like these. That may be premature. […] For one thing, it’s just one report, and who knows what future revisions, future policies and other data may bring. For another, it’s not that +73k payrolls in July is terrible. The breakeven rate of nonfarm payrolls has likely dropped to somewhere around 80–120k. We need more data, but if job growth is slowing at the same time people are exiting the workforce then the impact on the unemployment rate could be small.”
TD Securities	“While the September FOMC meeting remains live for the Committee's first move — and we don't push back against that possibility — we remain of the view that October is more optimal for a return to policy normalization. Needless to say, amid high data dependency, the inflation and employment data published between now and the next FOMC meeting will be instrumental for our FOMC views.”

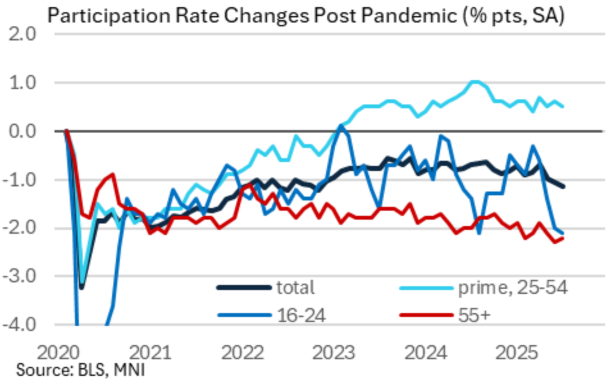
Payrolls Report Chart Pack

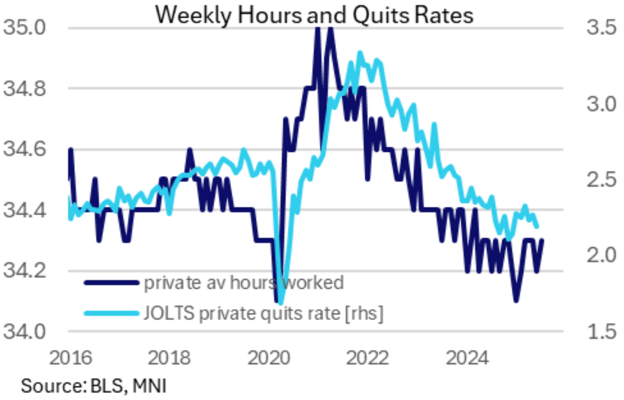


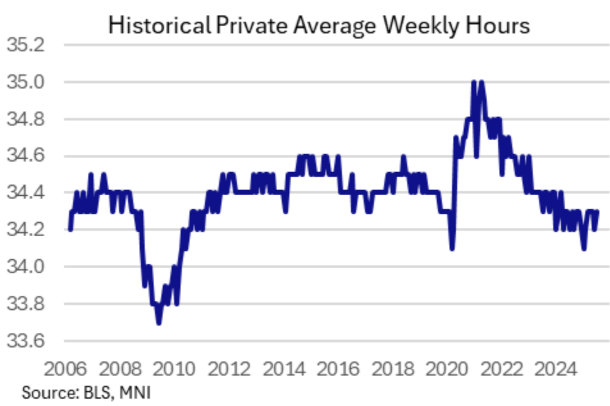

Unemployment & Underemployment Rates (%, SA)
U/E Rate
U-6 Rate [rhs]
Source: BLS, MNI

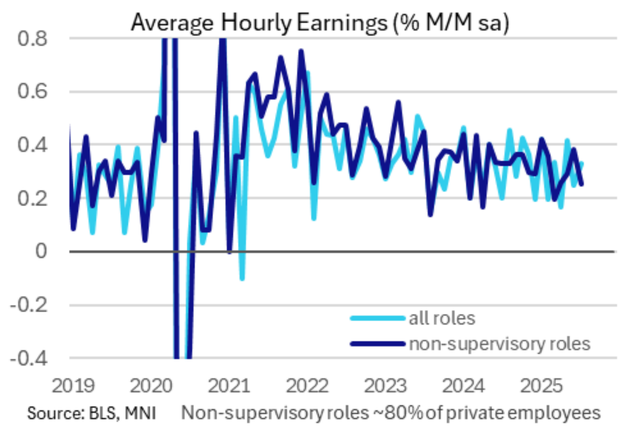

Unemployment Rate Gaps (%, SA)
Education: Less than high school to Bachelors or higher
Race: Black or African American to White
Source: BLS, MNI

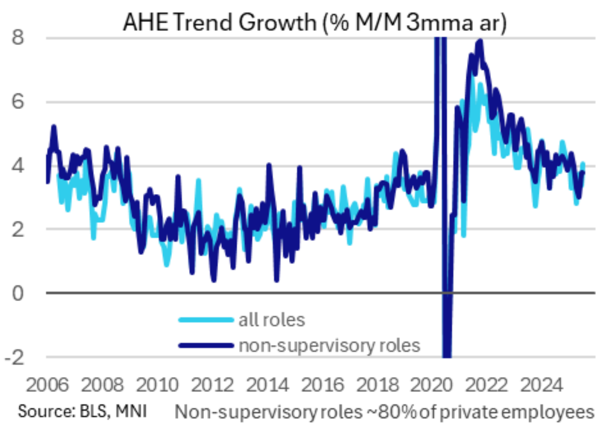

Participation Rates (%, SA)
total
prime, 25-54 [rhs]
Source: BLS, MNI


Participation Rate Changes Post Pandemic (% pts, SA)
total
prime, 25-54
16-24
55+
Source: BLS, MNI


Weekly Hours and Quits Rates
private av hours worked
JOLTS private quits rate [rhs]
Source: BLS, MNI


Historical Private Average Weekly Hours
Source: BLS, MNI


Average Hourly Earnings (% M/M sa)
all roles
non-supervisory roles
Source: BLS, MNI
Non-supervisory roles ~80% of private employees


AHE Trend Growth (% M/M 3mma ar)
all roles
non-supervisory roles
Source: BLS, MNI
Non-supervisory roles ~80% of private employees

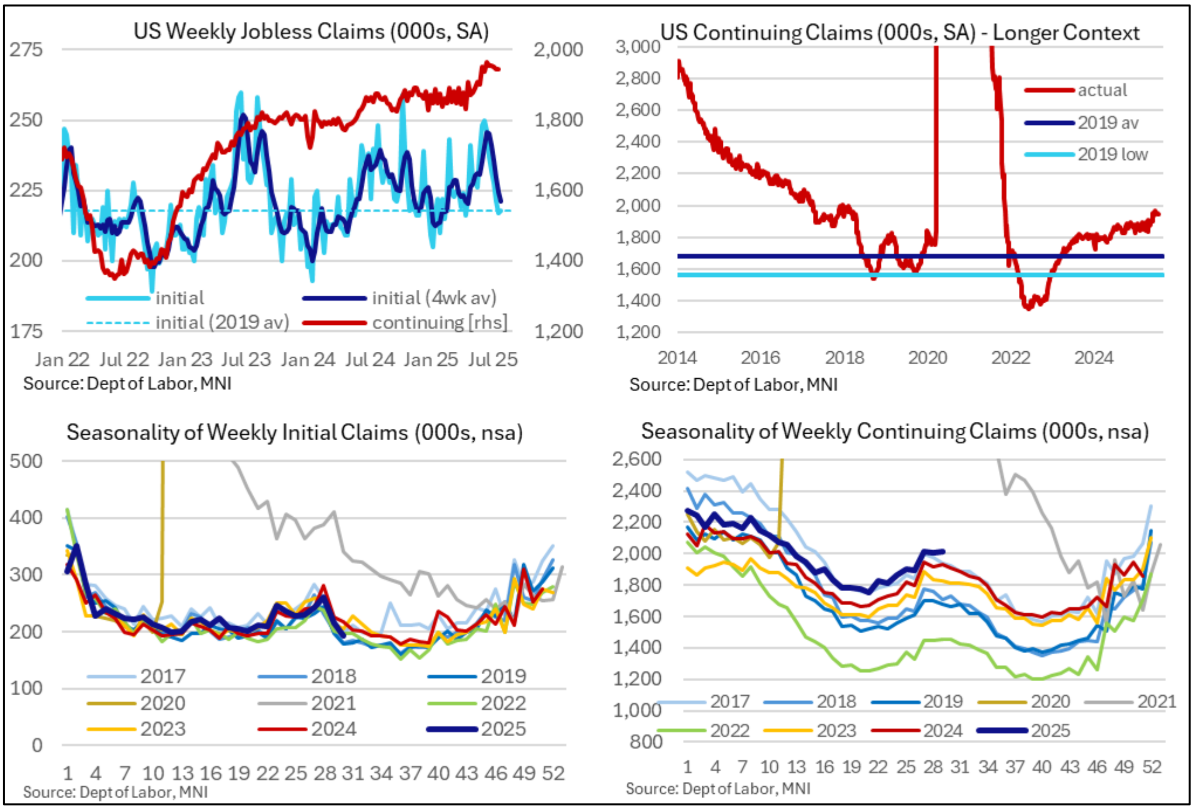
Other Labor Indicators Of Note

Upside

Another Set Of Better Jobless Claims Data

Initial jobless claims surprised lower again in data up to late July as they trend closer to average levels in 2019, a period when the unemployment rate was 40-50bps lower than current levels. Continuing claims meanwhile are very slowly edging lower after a quick climb through May-June. The combination continues to support the "low fire, low hire" categorization of the labor market, with greater emphasis on the former in the past couple weeks.

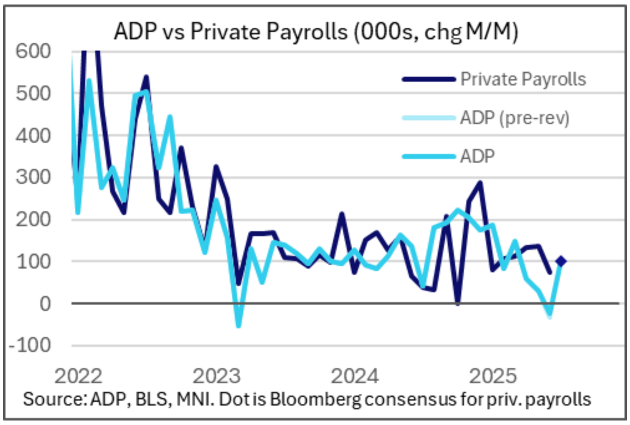
- Initial jobless claims were lower than expected at 218k (sa, cons 224k) in the week to Jul 26 after an unrevised 217k.
- The four-week average continues to moderate, most recently hitting 221k (-4k) having recently peaked at 246k in mid-June.
- As such, initial jobless claims are roughly tracking at average levels in 2019 despite the population growth seen since then. 2019 was a period of previous labor market tightness during which the unemployment rate averaged 3.7% vs the 4.12% in June and the 4.25% in July.
- Continuing claims were also lower than expected at 1946k (sa, cons 1953k) in the week to Jul 19 after a downward revised 1946k (initial 1955k).
- That downward revision also sees a slightly more favorable figure when comparing payrolls reference periods, with the 1946k vs 1964k in June after 1907k in May and 1833k in April.



ADP Surprises Stronger, With Improvements Across Most Sectors

ADP private employment was stronger than expected in July, increasing 104k (cons 76k) after an upward revised but still unusually weak -23k (initial -33k) in June. There were sequential improvements across nearly all industries after that particularly weak June print.

- Service-providing jobs increased 74k and goods-producing jobs increased 31k.
- Within services, there were sequential improvements almost across the board. "Education & health" does however still lag significantly, which continues to strangely weak compared to its BLS payrolls counterpart.
- The largest sequential improvement came for "professional and business" at 9k after a particularly heavy -57k and "financial activities" at 28k after a rare -12k.
- "Education & health" continued to buck the trend, falling -38k after -48k for a fifth monthly decline across the past six months. Highlighting just how weak this has been relative to payrolls, it averaged -31k in Q2 and 4k in Q1 compared to 73k and 64k for education & health private payrolls.



ADP vs Private Payrolls (000s, chg M/M)
Source: ADP, BLS, MNI. Dot is Bloomberg consensus for priv. payrolls

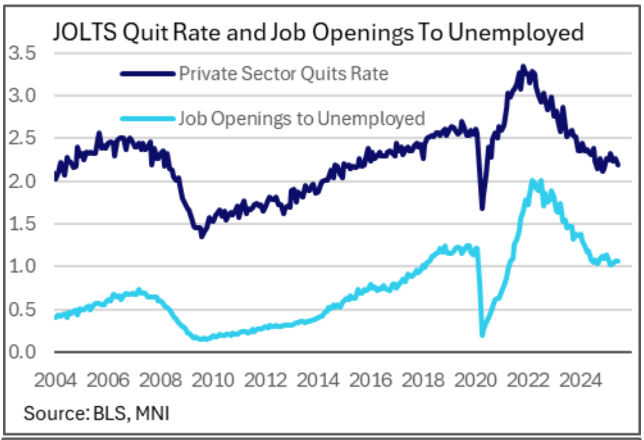
- Smallest businesses (1-19 employees) had come under most pressure with -31k in June but somewhat bounced back with 22k in July.
- ADP's Nela Richardson on the report: "Our hiring and pay data are broadly indicative of a healthy economy. Employers have grown more optimistic that consumers, the backbone of the economy, will remain resilient."
- From the separate Pay Insights report: "ADP Pay insights: "Year-over-year pay growth in July was 4.4 percent for job-stayers and 7 percent for job-changers. Gains have held steady for the past four months."

Downside

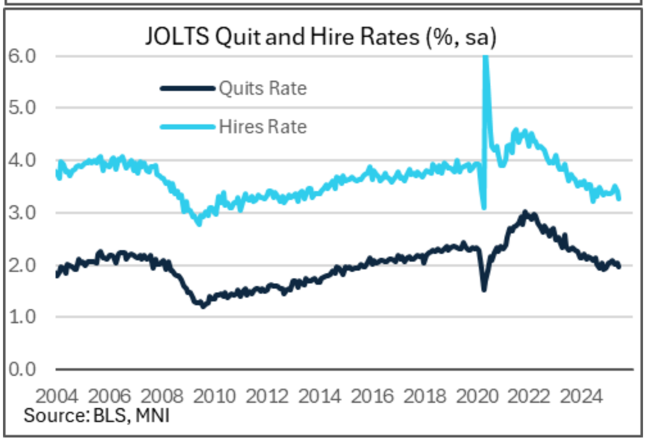
Hire Rates Extend Push Lower In A Net Dovish JOLTS Report

The **JOLTS** report for June was soft across the board. The ratio of openings to unemployed continued to show signs of stabilization rather than deterioration, broadly holding levels seen for the past year, but hire rates in particular cooled further. The latter leaves susceptibility to any slowdown in economic activity.

- Job openings were a little lower than expected in June at 7437k (sa, cons 7,500k) after an unrevised 7769k in May.
- That decline on the month meant that the ratio of openings to unemployed was broadly unchanged at 1.06 after an unrevised 1.07 despite the already known 222k decline in unemployment in last month's payrolls report.
- It remains close to the recent low of 1.02 in March and represents continued recent stability rather than any further moderation, having averaged 1.07 since Jun 2024. For context, it averaged 1.2 in 2019 and 1.0 in 2017-18.
- The quit rate eased to 1.97% from a marginally downward revised 2.049% that was exacerbated by rounding having initially reported at 2.06%. This is the lowest quit rate since December after some surprise increases which helped see a recent high of 2.10% in March.
- There's a similar story for the private sector quits rate, at 2.19% after 2.27% for also its lowest since December. Whilst a small portion of the labor market, the federal quit rate dipped back to 0.5% but remains unchanged from the 2024 average prior to DOGE efforts.
- Hire rates are the most dovish aspect of the release in our minds, falling to 3.26% from 3.42% (revised down from 3.45%). This is the lowest since Jun 2024, Apr 2020 and before that 2013, whilst it compares with pre-pandemic averages in the 3.8-3.9% range for other periods of labor market tightness.



JOLTS Quit Rate and Job Openings To Unemployed
Source: BLS, MNI

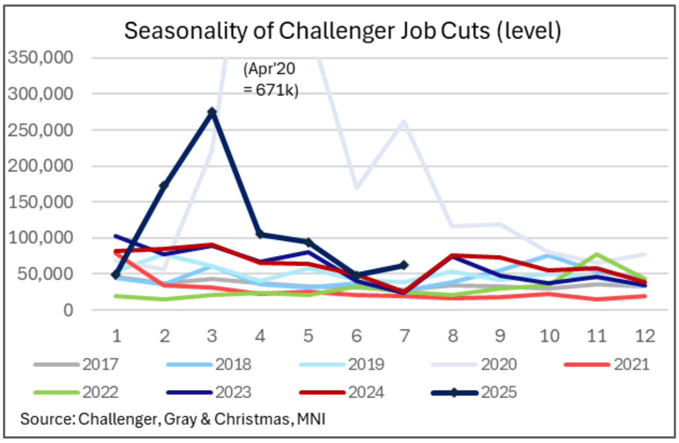


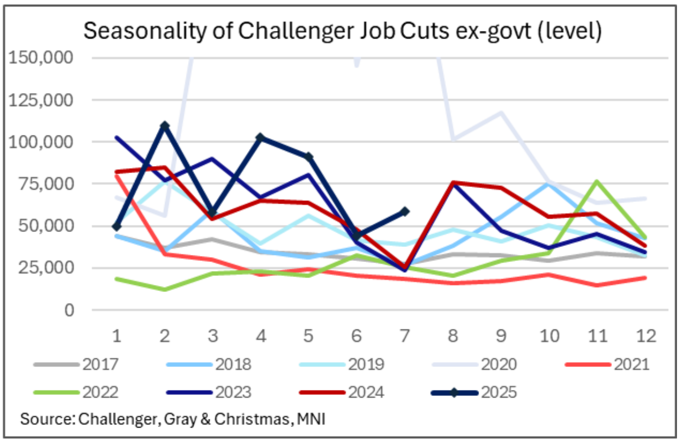
JOLTS Quit and Hire Rates (%, sa)
Source: BLS, MNI

- Fed Chair Powell has in the past warned that whilst the labor market remains resilient, any downturn could see a faster deterioration in the labor market considering the already low nature of hire rates.

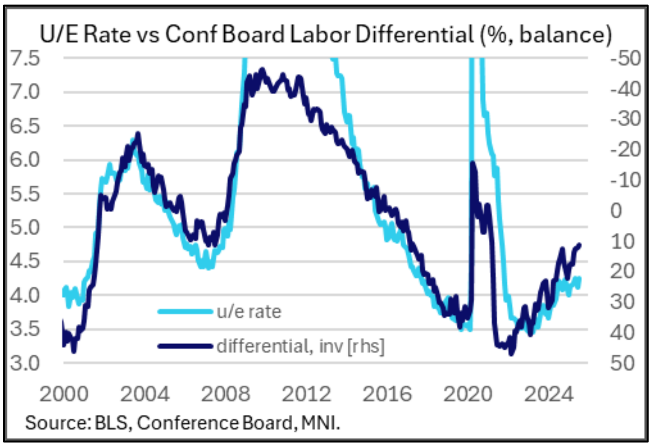
Unusually High Levels Of Layoff Announcements In July
The Challenger, Gray & Christmas job cuts report showed a sizeable climb in job cut announcements in a month that typically has very low levels. It makes the increase more stark considering the "low fire, low hire" nature of the labor market, but equally the small denominator can leave it prone to distortions when looking in Y/Y terms.

- Challenger job cut announcements jumped to a non-seasonally adjusted 62k in July after 48k in June, its third smallest for the year to date.
- However, that's a large 140% Y/Y increase as July seasonal layoff announcements are usually very small (26k in Jul 24, 24k in Jul 23 and 26k in Jul 22).
- These Y/Y figures can be volatile month-to-month but for context, it follows an average 36% Y/Y in Q2 after a booming 90% Y/Y (including 205% Y/Y in March) on DOGE announcements.
- Layoffs ex-government reveal a clearer deteriorating trend, with 131% Y/Y in July after an average 31% Y/Y in Q2 and -1% Y/Y in Q1, although that's still susceptible to exaggeration considering July announcements are usually low.
- Contributions behind the 62k layoff announcements were relatively broad-based, with the largest single industry being technology at 13k. Next largest were media (5k), automotive (5.0k), services (4.7k) and warehousing (4.7k).
- This services category includes "companies that service other companies such as commercial cleaning services and temporary staffing firms" and has been in some focus within this report after surging to 22.5k in May. Since then, it's seen two more typical months of 4-5k.
- Whilst the 4.7k for warehousing doesn't stand out on its own, especially after the 22k jump back in April following reciprocal tariff announcements, it more notably stands out against the typical seasonal pattern having seen layoff announcements of just 0.3k in Jul 24 and 0.05k in Jul 23.
- Retail job cut announcements meanwhile were typically low, at just 0.6k for only a 2% Y/Y increase.





The labor differential within the Conference Board consumer survey eased to 11.3 in June from an upward revised 12.2 (initial 11.1) in June. That's a new recent low, after that revision, having last been lower in Mar 2021 and it comes after seven consecutive monthly declines. Interestingly, the latest deterioration came despite a higher share of those finding jobs to be plentiful (up from 29.4% to 30.2%, but still only highest since May). Instead, those finding jobs hard to get also increased from 17.2% to 18.9% for the highest since Feb 2021. Whilst this differential shouldn't be used too heavily to estimate month to month moves in the unemployment rate, it nevertheless points to a further trend increase.



QCEW Back And Forth On The FOMC
Nonfarm payrolls growth was exaggerated last year before unusually large downward benchmark revisions after accounting for differences in more comprehensive QCEW data. This quarterly report, for which data is currently available only to 4Q25 points to further downward revisions ahead. The difference is largest when it comes to private sector payrolls, in the latest vintage seen rising 1.2% Y/Y back in December. Latest revisions see if moderating to 1.0% Y/Y for three months now although that’s still close to the 1.1% averaged since early 2024. However, private employment in the QCEW survey sat at a softer 0.6% Y/Y. We’ll have a better idea of potential revision sizes with the Sept 9 QCEW release for Q1, which forms the preliminary benchmark revision ahead of the actual benchmark revision due in February for the Jan 2026 payrolls report. A word of warning here, last year saw a preliminary estimate of -818k/-819k for nonfarm/private payrolls vs the -598k/-635k in the actual benchmark revision. President Trump’s post informing of plans to fire BLS’ McEntarfer mentioned the preliminary figure. Much has been made of this continued potential exaggeration of the monthly payrolls data, not least on the FOMC. Governor Waller, a leading dove now and dissenter at Wednesday’s meeting, extrapolated this very early QCEW signal and suggests monthly private sector employment gains in June were closer to zero prior to Friday’s large revisions (he likely views it as negative now). Chair Powell meanwhile pointed to the significant reduction in labor supply, moving in tandem with softer labor demand.

Fed Governor Waller in his speech on “The Case For Cutting Now” – July 17, 2025:

“And there is another reason to cite the slowdown in private-sector hiring. A pattern in data revisions in recent years tells us that the private payroll data are being overestimated and will be revised down significantly when the benchmark revision occurs in early 2026. Accounting for the anticipated revision to the level of employment in March 2025 and extrapolating forward, private-sector employment gains last month were much closer to zero[4]. This is why I say private-sector payroll gains are near stall speed and flashing red.”

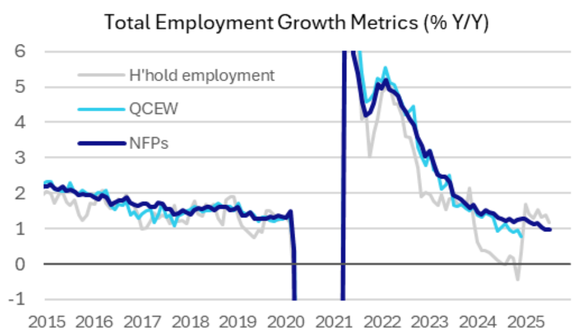
“[4] My estimate of the anticipated revision is based on the difference between the currently published level of payroll employment and the count of employment from the Quarterly Census of Employment and Wages (QCEW), which is used to benchmark the payroll employment figures. The QCEW data, which are currently available through 2024:Q4, suggest that the monthly change in payroll employment has been overstated by roughly 60,000 per month since March 2024.”

Fed Chair Powell in Wednesday’s FOMC press conference (from the MNI rough transcript) – July 30, 2025:

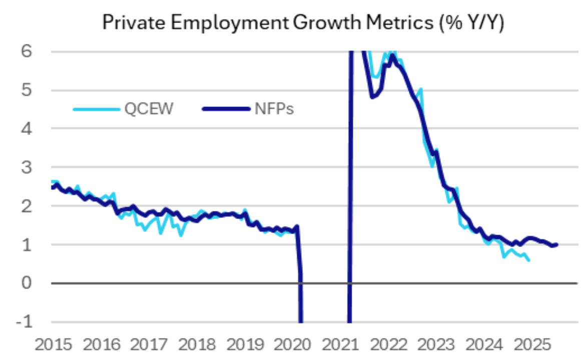
“So, I'm not going to talk about any individuals, you know, any individual's comments, I wouldn't do that. But look, I think what we know is that private sector job creation, certainly in the last report, we will see on Friday, but had come down a bit. And if you take the QCEW adjustment seriously, it 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.

If you look for things, like I mentioned quits, look at wages, wages are gradually cooling. I look at vacancies to unemployment. Those things have been pretty stable for -- they haven't really moved a lot in a full year. So, I think if you take the totality of the labor market data, you have got a solid labor market.

But I think you have to see that there are downside risks. It's not -- you don't see weakening in the labor market, but I think you have got downside risks in a world where unemployment is being held down because both demand and supply are declining. I think that's -- it's worth paying close attention to it and we are.”



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



Source: BLS, MNI.

MNI Policy Team Insights

MNI INTERVIEW: Ex-Chief Says BLS Can Withstand Trump Pressure

By Evan Ryser (Aug 1, 2025)

WASHINGTON - The public can trust that the Bureau of Labor statistics will continue to produce gold-standard, scientifically-produced numbers, even amid pressure from President Donald Trump and continuing funding challenges, ex-BLS Commissioner William Beach told MNI Friday.

"I have every reason to believe that these numbers will be as good as they are right right now, gold standard numbers, best produced in the world, as long as they [BLS] have the budget to do so. It won't be the personnel issues involved here. It will be a budgetary issue," said Beach, who served as BLS commissioner under Trump in his first term.

Even if Trump picks a radical person to lead the BLS and they are confirmed by the Senate, Beach expects the BLS to withstand such a person. "There's no way for political manipulation of these numbers to occur. The commissioner doesn't see the numbers until the numbers are there and have been loaded into the computers for distribution. That's Wednesday prior to the Friday release."

HONEST

President Trump said the Friday jobs report was "rigged" and he said he has "three very good" people in mind for the job. "I put somebody in who is gonna be honest. That's all we want," he said.

BLS commissioner, Dr. Erika McEntarfer, appointed by Joe Biden, was confirmed by the Senate in January last year in an 86-8 vote. Among the bipartisan group that voted for McEntarfer was current-Vice President JD Vance.

A White House official and a BLS official confirmed McEntarfer has been fired. BLS said Deputy Commissioner William Wiatrowski will serve as Acting Commissioner for BLS.

Beach, who Trump nominated as BLS commissioner in 2017, is advocating Congress to take steps to strengthen the position so that it would be harder for a president to fire a BLS commissioner. "The President has the right. Does the President want to exercise that right? That's the question that's always been asked and answered in the negative until now."

PROCEDURES

In the meantime, BLS procedures are designed to be decentralized to avoid opportunities for interference and "certainly can" withstand such one new leader and can continue to produce gold-standard labor market indicators, Beach said.

For the Employment Situation Report, BLS staffers work in independent groups where data is collected and processed before their work is combined by about 40 people into a single collection. The report is then written by about five people, Beach said.

"At no point in this whole process does the commissioner see anything. It doesn't see the original data, the process data, the research that goes into it, the writing of the report, until the report is ready to essentially go out," he said. "There is one moment where the commissioner can see the draft final report, but all the numbers are locked in. And I can tell you, as commissioner, I was not allowed to change very many words, and they were pretty suspicious if I tried to change a word."

"It's very difficult for me to imagine how anybody could think that that system would be subject to political interference. It's really been designed to thwart any effort in that direction," Beach said. He was confident that top-tier employment reports will continue to receive the attention needed, even if Congress squeezes funding to statistical agencies. (See: MNI INTERVIEW: US Data Already Suffering From Underinvestment)

"BLS is a big enough organization that can move resources from lower priority to higher priority," Beach said. "There's dozens of reports BLS does, but seven of them are required by Congress to always be done, come hell or high water. I don't think that those reports are at risk right now."

MNI INTERVIEW: Manufacturing Needs Fed Cut To Turn Around - ISM

By Evan Ryser (Aug 1, 2025)

WASHINGTON - U.S. manufacturing is likely to see a stagnant year unless there is more stability in trade policy and an interest rate cut from the Federal Reserve at its September meeting, Institute for Supply Management CEO Thomas Derry told MNI.

If the Fed doesn't cut in September "it will just perpetuate these conditions that we're in right now," he said. "If the Fed defers one more time in September, it means manufacturing was a wash for the year. We've been in contraction for five months now. I don't see any reason why we would expect conditions to improve if we don't get a Fed rate cut in September."

Uncertainty over trade policy will drag on U.S. manufacturing until at least the fourth quarter and whether or not demand returns will be heavily dependent on Federal Reserve monetary policy, Derry said. The employment subindex at 43.4 fell to the weakest since the spring of 2020.

"It just basically guarantees we continue to move sideways in manufacturing in the United States" if the Fed doesn't ease, Derry said. (See: MNI INTERVIEW: Fed September Cut Not Assured - Rosengren)

"I'm focused on how widespread the contraction in manufacturing is," he said. "Seventy-six percent of manufacturing GDP was in contraction in July. None of the big six industry sectors was in expansion last month. Thirty-one percent of manufacturing GDP was in strong contraction. Both of those numbers are the highest we've seen since December of 2024."

The ISM manufacturing PMI fell one percentage point to 48.0 in July, below expectations for a slight rebound to 49.5. Manufacturing has been in contraction for five straight months. It saw expansion at the start of the year but was in contraction for 26 months before that.

PASS THROUGH

The vast majority of respondents said they are now considering passing on duties on imports to customers, Derry said. "A significant number of comments in this month's report said they're now considering passing on price increases to our customers."

"Price pressures are building in the supply chain itself," he said. "Those numbers are up for intermediate goods. That's why the Fed's in a tough place." Still, Derry is confident tariff-related price price increases will be one-time jumps. The ISM prices subindex eased nearly 5 percentage points in July to 64.8.

TRADE CLARITY

New orders are likely to increase in coming months due to dwindled inventories but what's even more important is the Fed and whether the Trump administration is closer to providing a more stable environment for tariff policy.

"Companies have been very cautious, because the environment has been so unpredictable, and if the trade deals are interpreted as being okay, we're beginning to understand what the rules of the road are going to be going forward. Then they'll think that creates conditions where companies will feel comfortable investing," he said. "But the Trump administration is now using tariffs for non-trade and non-economic reasons, like political reasons, like Brazil. And that's an overhang."

"There's a view that customer inventories are too low and we've worked through the big stock-up purchases that happened earlier in the year."

The backlog subindex is the most important predictor of manufacturing right now, he said. "If inventory builds happen then that could push us closer to the 50 number" in the headline PMI, he said, expressing little confidence that happens this year.

MNI INTERVIEW: Fed September Cut Not Assured - Rosengren

By Evan Ryser (Aug 1, 2025)

WASHINGTON - A quarter-point interest rate cut is still not the most likely outcome of the Federal Reserve's September meeting despite a weaker-than-expected jobs report, because next month's decision will be heavily dependent on additional inflation and employment data to come out before then, former Boston Fed President Eric Rosengren told MNI.

"It's probably too soon to expect a September cut to be the most likely outcome," he said in an interview. "It's still kind of a coin toss whether they do anything in September at all, but if the next employment report indicated a significant decline in payrolls, if firms start cutting back very substantially and that appears in the data, then the Fed will react if they think that we're actually going into a recession."

The market's estimated probability of a rate cut surged on Friday to 80% after the Bureau of Labor Statistics reported hiring fell to a trickle in the last three months.

"I think it's a bit of a overreaction," said Rosengren. "It may turn out that that's what happens if the labor market data continues to weaken. But I could also imagine a situation where the labor market continues to have an unemployment rate not that much different than where we are and the inflation data becomes more of a concern."

FEDERAL POLICIES

Economic data is in the early stages of showing the impacts from the Trump administration's policy changes. "The stagflation that many economists were worried about as a result of the variety of policy shocks looks like it is showing up in the data that we are seeing this week," Rosengren said. (See: MNI INTERVIEW: Inflation Could Stifle 2025 Fed Cuts - George)

"If you were worried that tariffs were going to start causing prices to increase, the areas that you would expect it to be showing up are in goods prices, particularly things like durable goods, furnishings, household appliances, and if you look at the PCE report, that's exactly where it was showing up," added Rosengren, now at the MIT Sloan School of Management.

"I'm expecting we'll continue to see more as businesses find that the level of tariffs would hurt earnings too much and they'll be forced to raise prices over the next few months."

The former Boston Fed chief attributed recent payroll employment weakness to a combination of federal government policy shocks as well.

"If you look since May, there have been significant declines in the federal workforce. If you look at areas where deportation of labor would have a big impact, you'd expect that construction employment in houses and commercial real estate would be an area that has significant number of immigrants. That number also is negative. And finally, manufacturing is being distorted by a variety of tariff shocks," he said.

CHALLENGING FOR FED

He expects both the inflation and employment pictures to deteriorate at the same time, forcing the Fed to make a judgement on which side of the dual mandate requires more immediate attention.

"Putting the inflation data and the employment data together, it's particularly challenging for the Fed because it looks like the inflation data is going to continue to be higher than what the Fed wants," said Rosengren. "I don't think the two dissents [at this week's FOMC meeting] are particularly indicative of what's going to happen in September," he added.

"For the Fed, it matters what the relative magnitudes of the impact on inflation versus the impact on labor markets, and that's going to take more data. I don't expect more clarity from the Fed until probably Jackson Hole, where there will probably be a signal which way they're leaning."

MNI INTERVIEW: Inflation Could Stifle 2025 Fed Cuts - George

By Pedro Nicolaci da Costa (Aug 1, 2025)

LONDON - The elevated risk of inflation from tariffs, bloated fiscal deficits and threats to central bank independence could make it hard for Federal Reserve officials to cut interest rates this year, especially if price pressures persist or even ratchet higher in coming months, former Kansas City Fed President Esther George told MNI.

“The credibility of the central bank, its independence, has long been viewed, certainly for the United States, as being an important anchor. So when I look at inflation and inflation expectations, I do look at our fiscal situation right now and say, boy, that's an upside risk for the rate environment, for inflation,” George said in an interview.

This could reduce the impetus for any reductions in borrowing costs this year at all even though as of June policymakers had penciled in two cuts.

“If I were doing a personal forecast myself, that's the camp I would be in,” she said of the prospect of no cuts. “I just think it's going to take some time. I think we will see persistence in that inflation. And even if it doesn't pop up beyond where it is, it's going to keep the Fed on the edge of saying we can't turn loose of our 2% goal here very easily.” (See MNI INTERVIEW: Fed Should Stay Extra Cautious On Cuts-Sinclair)

SKEPTICAL OF SEPTEMBER

George thinks Fed Chair Jerome Powell mostly tried to distance himself from the prospect of a rate cut at the central bank’s next meeting in September during his post-meeting press conference this week. The Fed held rates steady at 4.25-4.5% but two governors dissented for the first time since 1993 – Miki Bowman and Chris Waller.

“I am a little skeptical of September. I thought he didn't lean toward September. He still leans toward rate cuts, for sure, but he was trying to say, let's wave off of thinking September as the big announcement, as opposed to there being a lot of things in play,” she said.

George said it was premature to argue that the expected inflation related to tariffs will not materalize, in part because inflation numbers have stagnated for much of this year. She said the latest PCE figures, which showed a gain of 2.8% on core in the year to June, serve as a reminder that the Fed's battle to bring inflation back to target is not over.

"I do expect it to come. When people are so relieved that they haven't seen it, I'm a little bit more cautious. People anticipated it, so they ramped up their inventories and we got a lot of imports. That has sort of faded now, but we are seeing it in goods, and I expect we will see it more over the next few months, because it just takes a while," she said.

"It's not like we're seeing the disinflation. So the real point is, the Fed is trying to hold the line on inflation."

NOT RESTRICTIVE

Moreover, the backdrop of a resilient economy and persistent inflation might well mean policy is not very restrictive in the first place – perhaps not at all, said George.

"For some time I have not thought this policy was restrictive. I think even to try to characterize it as mildly or modestly restrictive misses the point too. I heard the chairman say, 'well, we don't know what neutral is.' Right, and we all keep saying that. And yet there is a strong sense that we're trying to drive back towards something," she said.

"The committee has shifted its estimates of the long run R-star when it puts out its dot plot. There's an acknowledgement that neutral has probably shifted up and, watching how the economy performed, I don't think interest rates are a drag on the economy."

MNI INTERVIEW: Fed Cuts Likely Delayed, Sept In Doubt - Lockhart

By Jean Yung (Jul 25, 2025)

WASHINGTON - Lingering uncertainty over tariffs' effects on inflation and a resilient U.S. economy have diminished prospects for the Federal Reserve to cut interest rates twice by year-end, former Atlanta Fed President Dennis Lockhart told MNI.

Considering the possibility that data between now and September could show faster inflation or deteriorating job market conditions, or both, Fed Chair Jerome Powell is also unlikely to hint at a September rate cut at Wednesday's press conference, he said.

"I'm doubtful the air will clear enough by September, given how some of these deadlines have been pushed out and work that remains to be done with trading partners," Lockhart said in an interview.

"Looking past September, it'll depend a great deal on what data show. You may see some backing off of the projections for two cuts by year end." (See: MNI INTERVIEW: Fed Seen Cutting Twice This Year - English)

CAN BE PATIENT

The FOMC is fairly split between those who are ready soon to resume lowering rates and those who want to wait until 2026, and many policymakers continue to expect more evidence of price hikes in upcoming inflation reports, Lockhart said.

"They're looking for greater clarity on the extent of the passthrough to consumer prices, whether the tariff effect is a set of one-off increases or a more persistent cycle, and whether the gradual slowing of the economy begins to show damage to employment," he said.

The White House has in hand a trade deal framework with Japan, but matters remain unresolved with the EU, Mexico and Canada, the U.S.'s largest trading partners. (See: CORRECTED-MNI: No US Tariff Exclusion For Aircraft, Spirits)

"Those questions are still hanging out there, therefore best to wait for evidence we're past that. And the relative good performance of the economy allows them to be patient."

Should Powell see reason enough to cut in September, he has another opportunity to foreshadow that committee bias at the Jackson Hole conference in late August, Lockhart added.

DISSENTS

Governors Chris Waller and Miki Bowman could cast dissenting votes at the July 30 meeting, both having expressed support for cutting rates this month, but their votes should not necessarily be interpreted as a widening of divisions among committee members, Lockhart said.

With no stop to President Trump's calls on the Fed to lower rates, Powell is sure to field a number of questions over Fed independence next week, he said.

"I doubt permanent damage has been done to Fed independence. It will depend a great deal on how the new chair conducts himself or herself," Lockhart said.

"Fed chairs are not dictators. They're leaders of a consensus process, and it takes work and give-and-take to arrive at a consensus." (See: MNI INTERVIEW: FOMC To Go Own Way If Chair Lacks Credibility)