

# U.S. Employment Insight: Sep 2025

## MNI View: Summer Softening To Spur Fed Action

Sep 5, 2025 - By Chris Harrison and Tim Cooper

### Quick Take: Most Indicators Point To Uncomfortable Increase In Labor Market Slack

- The August nonfarm payrolls report surprised on the dovish side for both payrolls employment and the unemployment rate. It confirms there are indeed rising downside risks to employment but also that the “curious” kind of balance in the labor market, per Powell’s words, remains in play.
- Nonfarm payrolls growth surprised lower (22k vs Bloomberg cons 75k) along with a two-month downward revision of -21k that offered no offset to last month’s historically large downward revisions.
- What’s more, the 22k increase would have looked a lot worse without a switch to a more favorable seasonal factor – the NSA change in August was the lowest for an August since 2015.
- Three-month seasonally adjusted averages stand at 29k for both nonfarm and private payrolls or a particularly weak -30k for private payrolls excluding the cyclically insensitive health & social assistance.
- These payrolls figures need to be viewed against recent breakeven estimates roughly in a range of 50-100k but with some seeing scope for lower numbers.
- The unemployment rate offers a better guide of labor market balance amidst a sharp decline in labor supply under the Trump administration, something multiple FOMC members mentioned in recent weeks.
- Here, the unemployment rate was on the dovish side at a new recent high of 4.324% after 4.25% in July. Consensus had been for 4.3% but with a skew to a 4.2% print.
- Remember though, the median FOMC member in the June SEP pencilled in an u/e rate of 4.5% in 4Q25.
- From an employment growth perspective, the latest vintage of data suggests that June was the low point (when nonfarm payrolls fell -13k for the first decline since Dec 2020. That chimes with continuing claims data, which increased in late May/early June before stabilizing, as well as ADP private employment.
- As for wages, AHE was on the soft side of expectations in August considering downward revisions to average hours worked. It’s seen year-ago growth moderate further to 3.7% Y/Y, albeit stronger at 3.9% Y/Y on a non-supervisory employee basis, and with productivity gains still keeping unit labor costs in check.
- A 25bp cut from the Fed on Sept 17 is more than priced (28bp at typing vs 30bp at one point post-data) whilst markets have shifted to almost pricing three consecutive cuts to year end with a cumulative 72bp.
- Still ahead on the labor front before that FOMC decision, preliminary benchmark revisions next week on Sep 9 with large downward revisions expected (-550k seems to be a minimum view for now).

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### Payrolls Summary Statistics For August 2025

	Actual	Cons.	Surprise on mth	2-mth Rev	Jun	May	Net Surprise
Monthly growth (000s)							
NFP	22	75	-53	-21	6	-27	-74
Private	38	75	-37	-36	-6	-30	-73

	Actual	Cons.	Prior mth	Cycle low	2019 av
U/E rate (%)	4.32	4.3	4.25	3.45 Apr'23	3.67

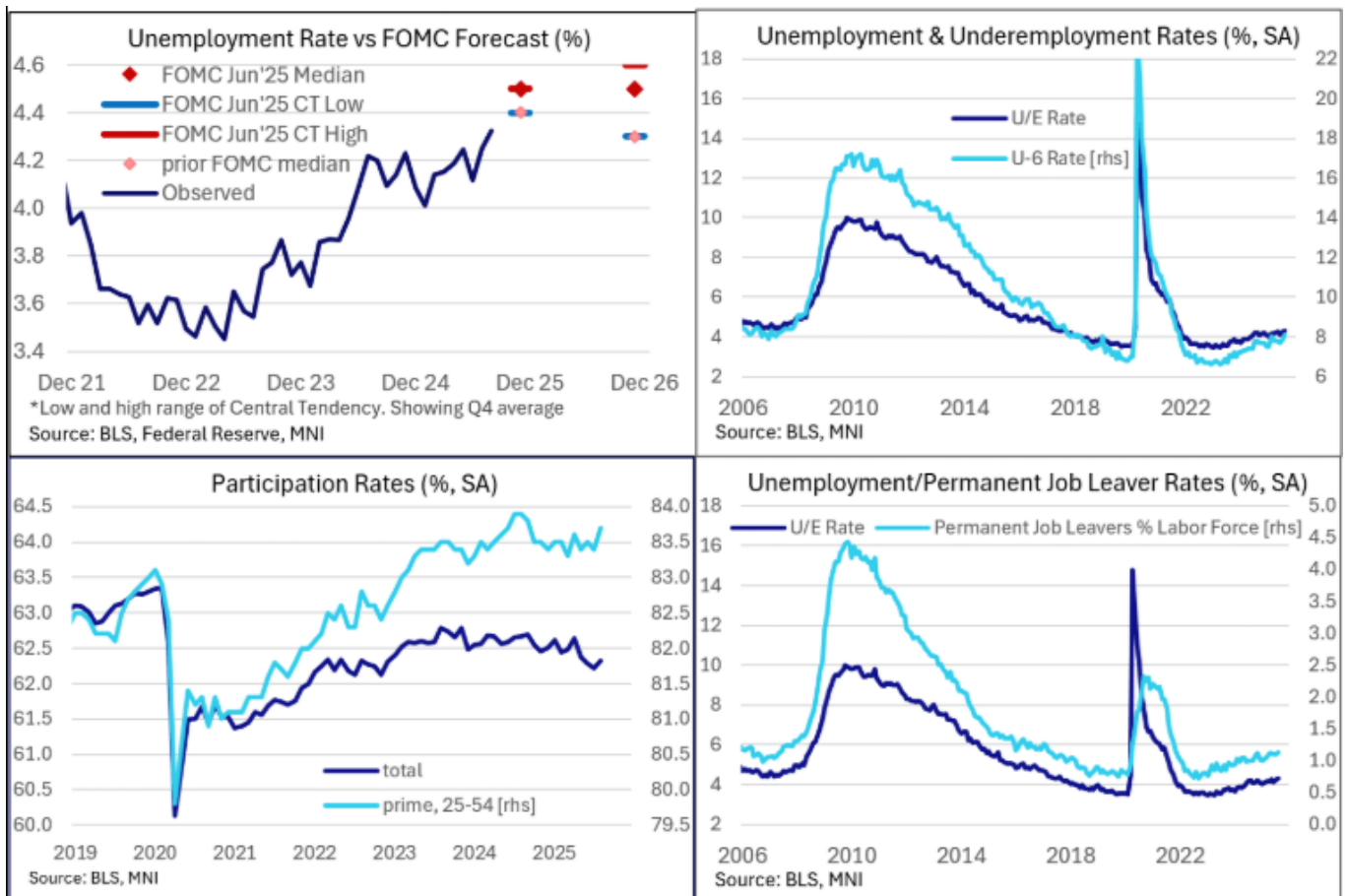
	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.27	0.3	3.69	3.8

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

## Household Survey Shows Slacker Conditions, But Participation Rising

The Household Survey showed an uptick in its main measures of labor market slack. That said, there weren't a lot of major new warning signals in the various Household metrics were mixed aside with continued slow deterioration in some areas, though exceptions included noticeable weakness in some demographic categories (more on which shortly) but surprising strength in prime-age participation.

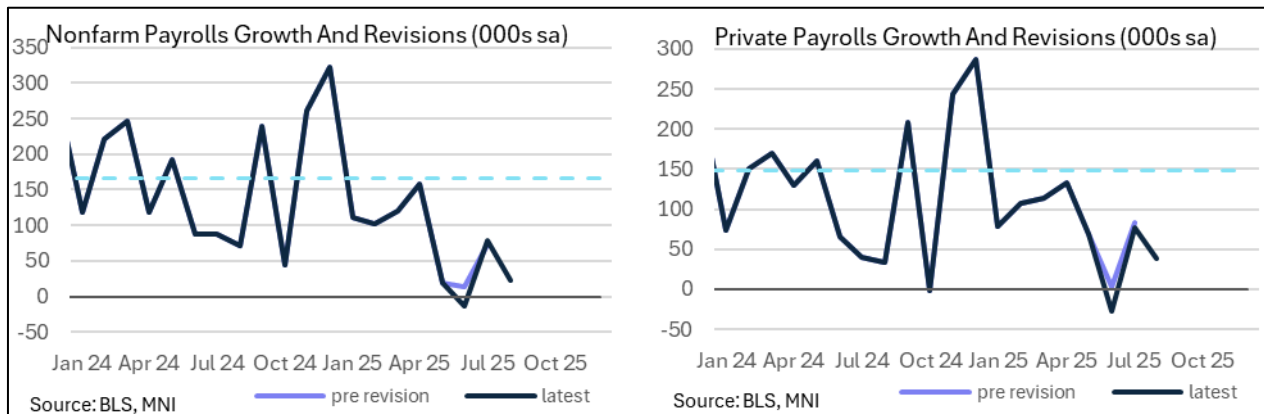
- The unrounded unemployment rate rose to 4.324% from 4.248% prior, marking the highest (and first above 4.30%) since October 2021. And the U-6 "underemployment" rate rose to 8.1% from 7.9%, likewise a post-October 2021 high.
- Household employment rose 288k, basically reversing July's 260k drop but keeping the level of employment 501k below January's level. The number of unemployed rose 148k after 221k, the highest 2-month rise since Jun-Jul 2024, and up 535k since January.
- A higher participation rate helped keep a lid on the rise in the unemployment rate: it ticked up 0.11pp unrounded to 62.33%, a 3-month high, with the labor force increasing by 436k, after three consecutive declines.
- Those not in the labor force fell 220k, reversing July's rise. That said, the number not in the labor force but currently want a job rose 179k to a post-July 2021 high - if they were added back into the labor force the unemployment rate would have been slightly higher.
- Most notably, prime-age participation hit an 11-month high 83.7% (from 83.4% prior). 16-24 participation dipped slightly (54.3% from 54.8%, good enough for a 60-month low stretching back to the pandemic, suggesting continued pressure on younger labor force participants), while 55+ was steady at 38.1%.
- And the employment-to-population ratio ticked up 0.06pp unrounded to 59.63%.
- Looking at the U-6 uptick, those working part-time for economic reasons ticked only marginally higher (65k), vs a 528k rise in part-time employment for noneconomic reasons.
- In another sign of slowly building labor market stress, permanent job losers as % of the workforce rose 0.01pp to 1.13%, highest since November 2021.

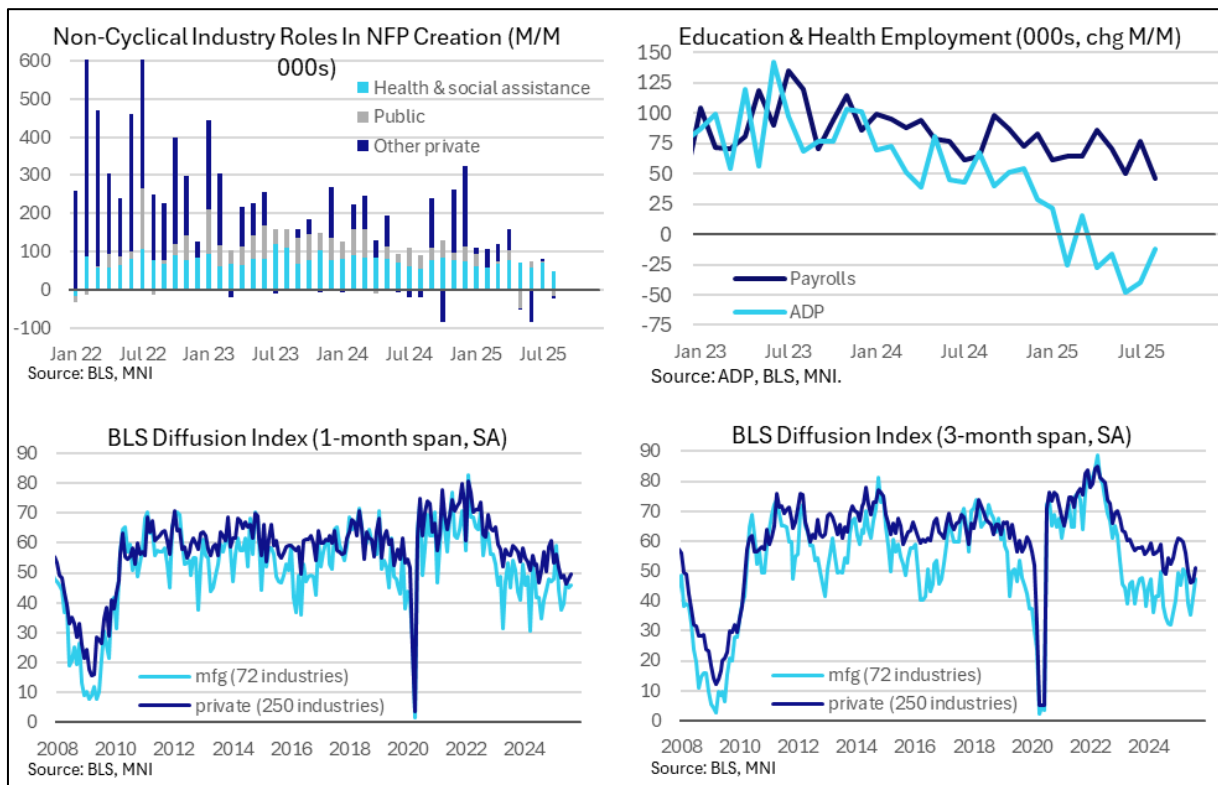


### August Sees Another Tepid Month Of Job Creation Although June Remains The Low

The following payrolls figures should be viewed against recent breakeven estimates roughly in a range of 50-100k but with some seeing scope for lower numbers.

- Nonfarm payrolls growth was softer than expected in August at 22k (sa, cons 75k) along with a two-month downward revision of -21k coming entirely from June.
- The private sector saw a similar story on balance, with a slightly smaller miss with 38k (sa, cons 75k) but a larger downward revision of -36k.
- However, this private sector payrolls growth continues to be dominated by the cyclically incentive health & social assistance category, which despite rising by its least since Jan 2022 still added 47k jobs. Private payrolls ex health & social assistance fell -9k.
- That leaves latest three-month averages of 29k for nonfarm, 29k for private and -30k for private ex health & social assistance. The latter is down from 97k in December.
- The one-month diffusion index for 250 private industries broadly echoes this weak private sector job creation trend, marking a fifth consecutive month sub-50, i.e. with more industries declining on the month than increasing. Admittedly, the 49.6 in August was the highest of these five sub-50 readings, having improved from a particularly low 46.2 in June, but it's still a subdued trend.
- Coincidentally, that June weakness coincides with a particularly weak overall payrolls reading, with -13k for NFP (in the latest data vintage the first contraction since Dec 2020), -27k for private and -83k for private ex-health & social assistance.



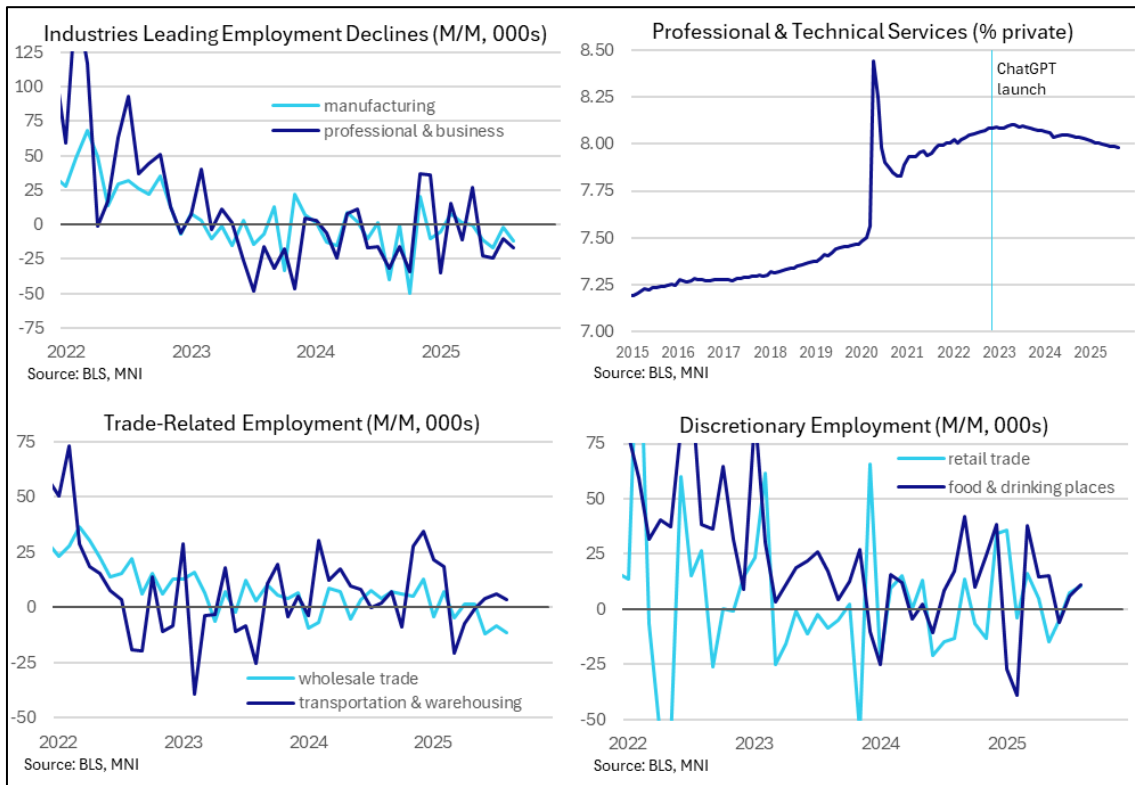


### An At Best Mixed Bag For Private Payrolls Growth By Industry

When looking at private sector payrolls growth beyond that of health & social assistance, we note further weakness in manufacturing and professional & business services but some recent resilience in food & drinking places in a not so weak indicator of discretionary demand. These findings of course as things currently stand in revision-prone data.

- Manufacturing sees a fourth consecutive monthly decline, with -12k M/M in August after three months averaging -10k. Declines aren't particularly unusual – it averaged -9k through 2024 – but it's still a deterioration from the rough stabilization seen through Feb-Apr.
- Construction shows signs of continued pressure on the housing market, with the -7k decline on the month the largest since early 2023.
- On the services side, the largest single drag continued to come from professional & business with -17k, having declined in six of the eight months this year, with a ytd average of -10k after -4k through 2024. This is one of the cleaner industries to see AI-disruption, with steadily declining industry shares for the professional & technical services sub-component for example – see chart.
- Trade industries meanwhile are mixed with wholesale seeing a third consecutive monthly decline (-12k) but retail with its strongest single month since March (+11k).
- As for indicators of discretionary spending, food & drinking places saw a reasonable +11k after +6k in July and -6k. This category appears to have been particularly distorted by adverse weather at the start of the year, with very weak Jan/Feb readings before a bounce in Mar/Apr, but it's a solid latest month.

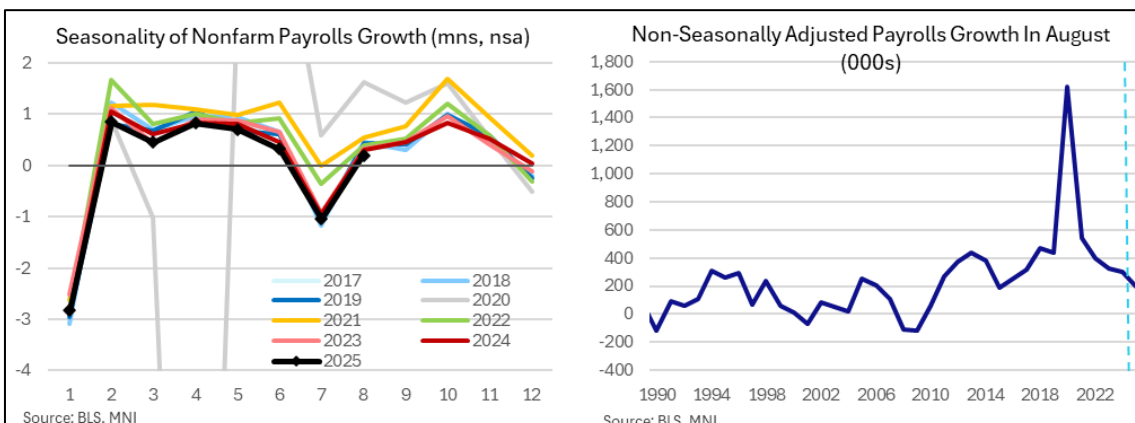
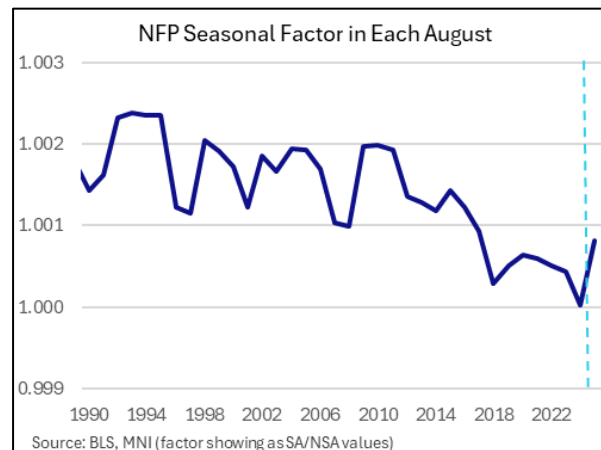




### Payrolls Growth Missed Despite A Very Favorable Seasonal Factor

One additional point to note was that the surprisingly soft seasonally adjusted increase in nonfarm payrolls of 22k (cons 75k) came despite a shift to a far more favorable seasonal factor in August.

- Contrary to a trend of an increasingly penal factor (weighing more on the seasonally adjusted level of payrolls) in August, with the Aug 2024 implied factor at its most penal in at least 35 years, Aug 2025 saw its most favorable since 2017.
- Putting this into context, had the August level of payrolls been subjected to the Aug 2024 seasonal factor, the change in seasonally adjusted payrolls would have been circa -100k rather than the +22k reported.
- It comes as non-seasonally adjusted payrolls growth of 200k in August followed 299k in Aug 2024, 328k in Aug 2023 and 396k in Aug 2022 and was its lowest for an August since 2015.



## AHE On The Soft Side, Especially Considering Lower Hours

For completeness, AHE on the soft side of 0.3% M/M rounding (cons 0.3) although the non-supervisory category was strong.

Total AHE:

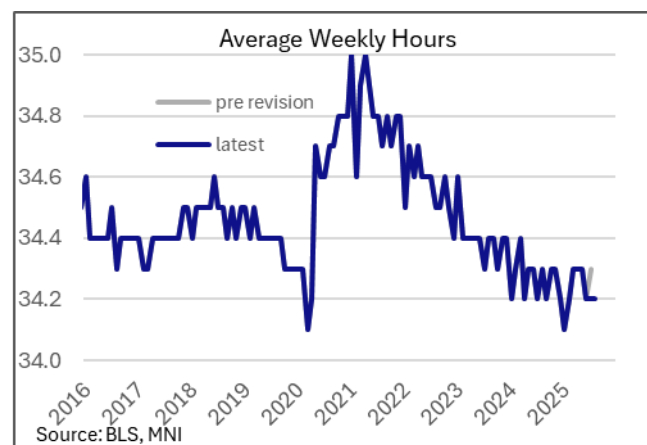
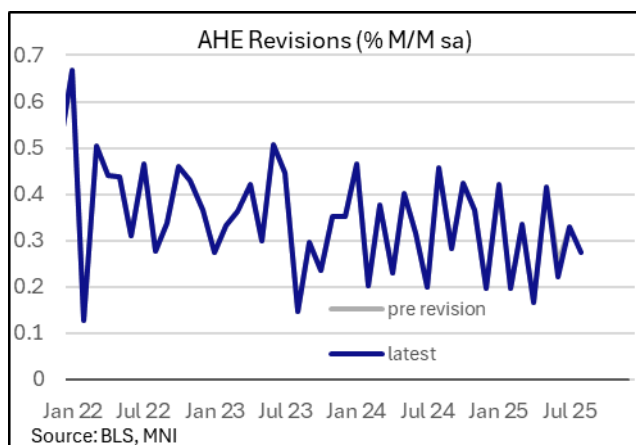
- M/M (SA): 0.274% in Aug from 0.33% in Jul (initial 0.33%)
- Y/Y (SA): 3.69% in Aug from 3.878% in Jul

AHE Non-Supervisory:

- M/M (SA): 0.383% in Aug from 0.256% in Jul (initial 0.256%)
- Y/Y (SA): 3.931% in Aug from 3.878% in Jul

Source: Bloomberg Finance L.P., MNI

Note also the weak hours worked at 34.2 after a downward revision. Whilst not unprecedented, it adds to the softer readings from the report - see charts:



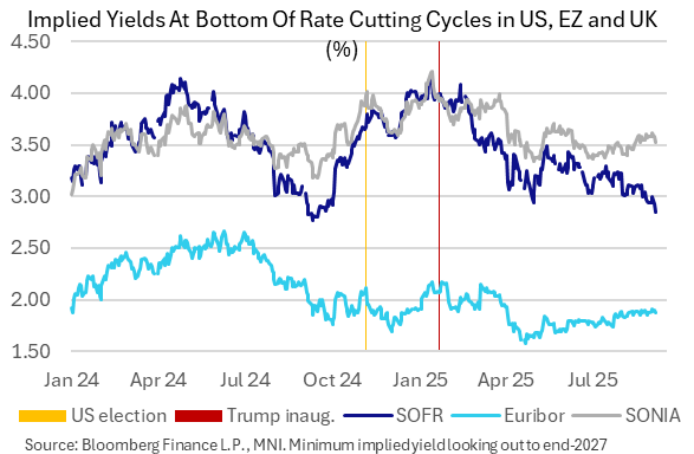
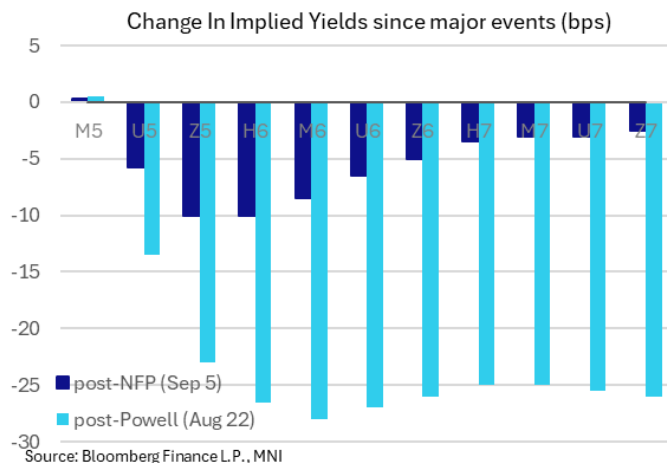
## STIR: Eyeing Three Consecutive Cuts To Year-End, Nearly 150bp Of Cuts Ahead

- Price action since the payrolls report continues makes sense to us, although for now we'd continue to fade any modest expectations for a more aggressive 50bp cut from the FOMC later this month.
- Fed Funds futures point to 28bp of cuts for the Sept 17 decision vs 25bp pre-release having pared a shift closer to 30bp in the aftermath (i.e. 20% odds of 50bp cut). Larger moves have been seen further out with now 71bp of cumulative cuts to year-end vs 61.5bp shortly before the release.
- We wrote in our preview: "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."
- Further out, SOFR futures now point to almost 150bp of cuts from current levels.

### FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre NFP (Sep 5)			chg in rate bp	pre Powell (Aug 22)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	4.33			4.33				4.33			
Sep'25	4.05	-28.0	-28.0	4.08	-24.8	-24.8	-3.2	4.15	-18.1	-18.1	-9.9
Oct'25	3.85	-19.8	-47.8	3.93	-15	-40.2	-7.6	4.03	-12	-30	-18.0
Dec'25	3.62	-23.2	-71.0	3.71	-22	-61.7	-9.3	3.85	-19	-48	-22.6
Jan'26	3.48	-13.7	-84.7	3.59	-12	-73.8	-10.9	3.73	-11	-60	-25.0
Mar'26	3.33	-15.6	-100.3	3.45	-15	-88.5	-11.8	3.60	-13	-73	-27.4

Source: Bloomberg Finance L.P., MNI.



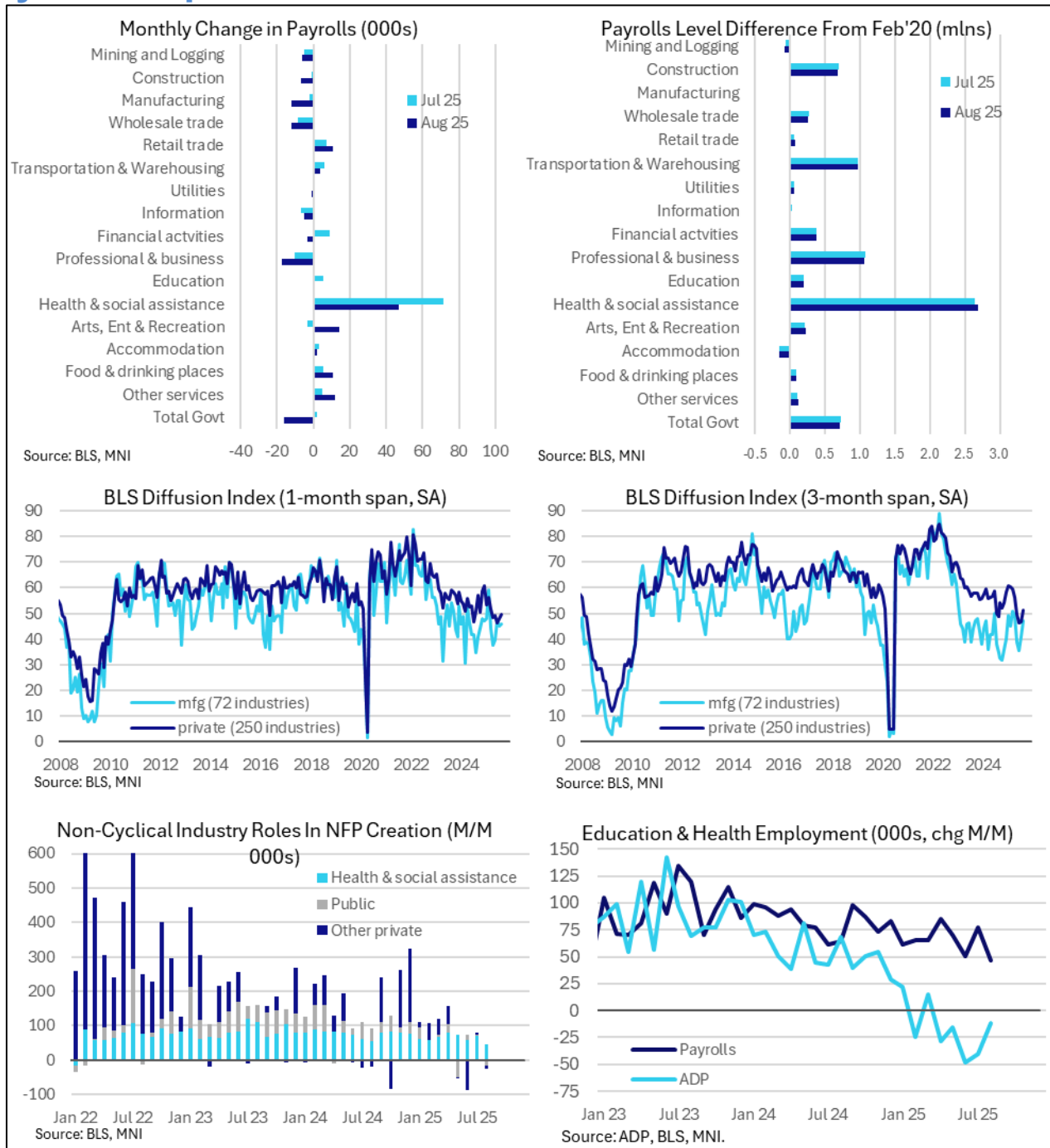
## Analyst View Changes

### BofA Switch To 2025 Cuts From One Of The Last Holdouts

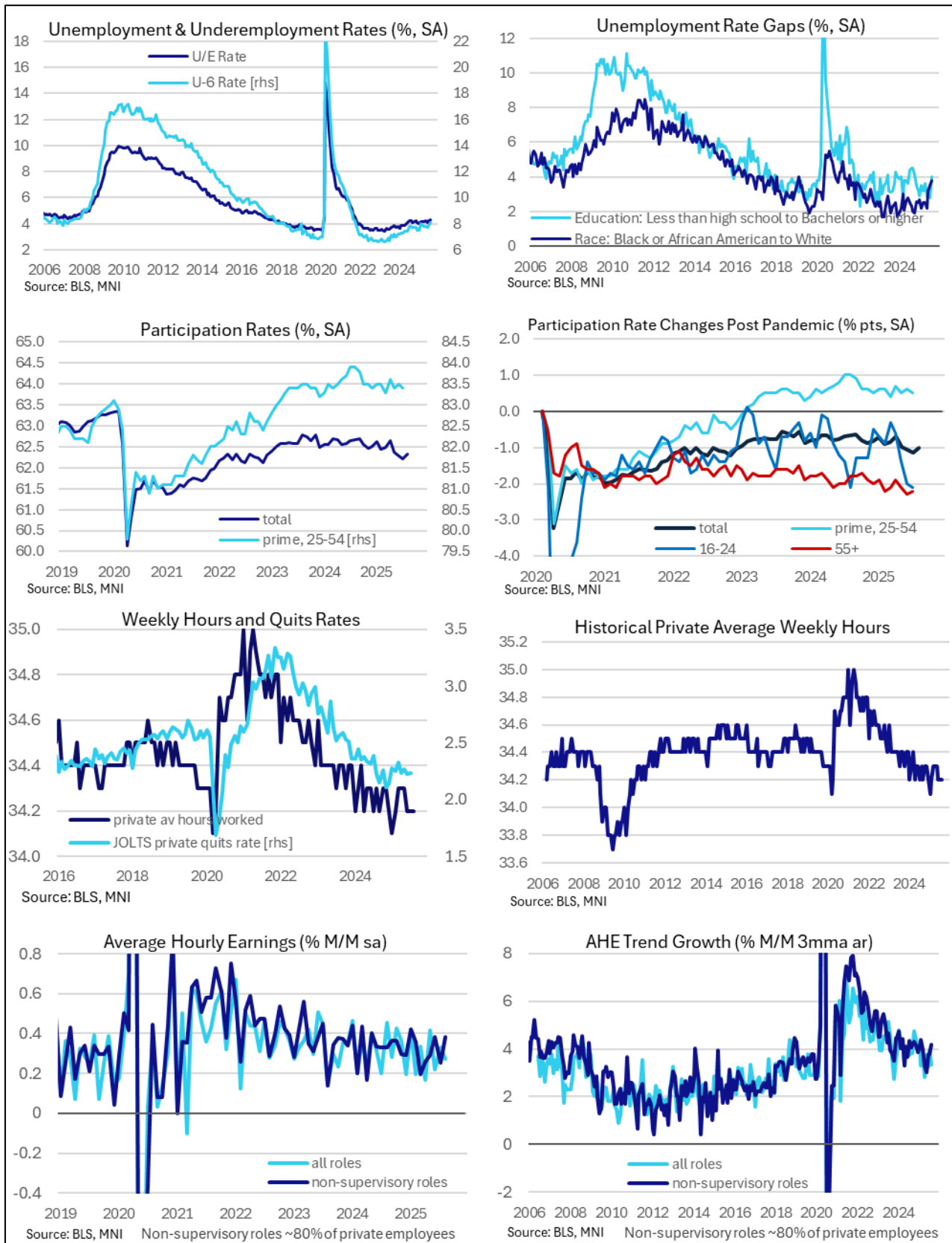
BofA have shifted to expecting 25bp cuts in Sep and Dec having previously been one of the holdouts to increasingly dovish calls with a long-held view that the Fed would keep rates on hold through year-end. Post-payrolls, Fed Funds futures shifted beyond pricing a 25bp cut later this month, currently implying 28.5bp for Sept and a cumulative 70bp to year-end.

- BofA write that "The August jobs report is likely to amplify the Fed's concerns about labor market weakness. Job growth was anemic on the month, the u-rate ticked up to 4.3% and weaker-than-expected hours worked led to a slowdown in income growth. There is now clearer evidence of deterioration in labor demand, not just supply."
- Whilst there is "very little precedent" for a cutting cycle where the Fed doesn't cut every meeting, they expect core PCE inflation stopping it from cutting in October (they forecast it likely to hit 3% in August and rise further toward year-end).
- "We stick to our view that the next Fed Chair will lead the FOMC in a more dovish direction. We now look for another 75bp of cuts under the new Chair, for a terminal rate of 3.00-3.25%. We pencil those in for Jun, Sep and Dec 2026. This takes our forecast of cumulative cuts by end-2026 from 100bp to 125bp."
- Note that they had however caveated their previous on-hold view with the following after Jackson Hole: "the risks have obviously shifted meaningfully toward a cut" in September..."The onus is firmly on the data to prevent a cut."

## Payrolls Report Chart Pack







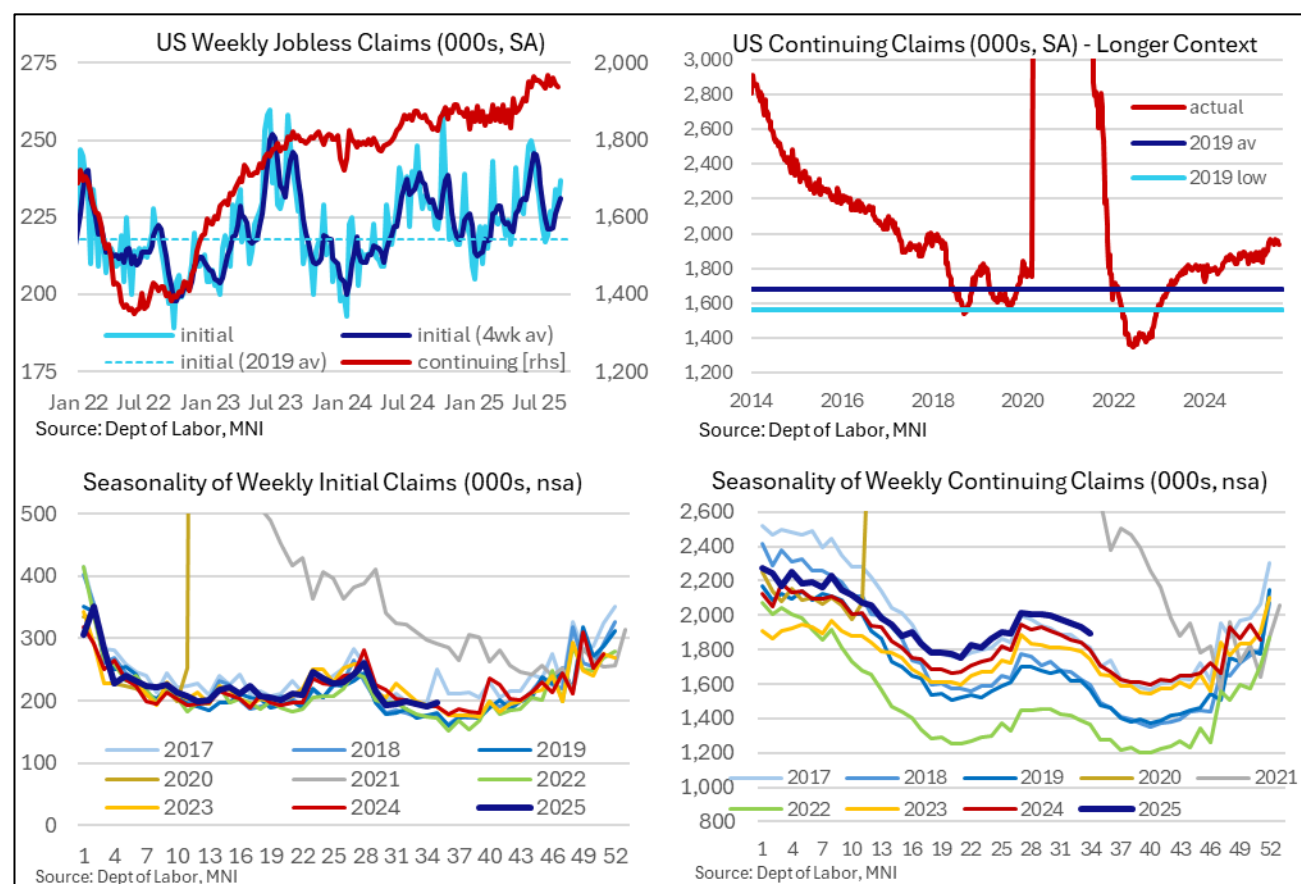
## Other Labor Indicators Of Note

### Upside

#### Mixed Claims Data But Continuing Drift Lower

Higher initial jobless claims and lower continuing claims offered a mixed bag, but initial claims remain within recent ranges whilst continuing claims saw another week of relative stabilization having pushed higher in May/June.

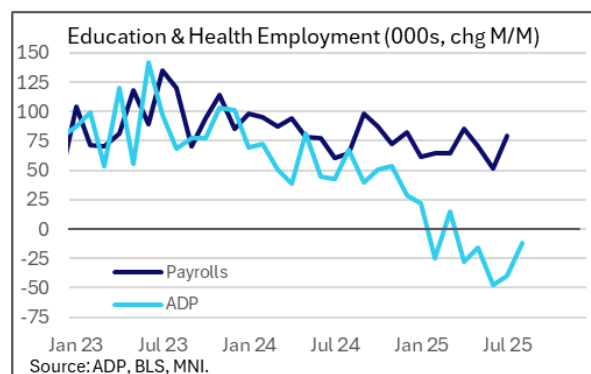
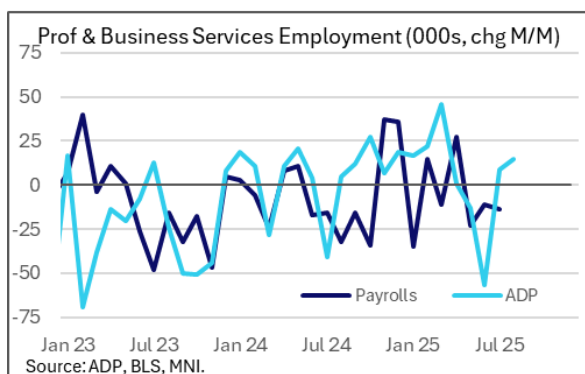
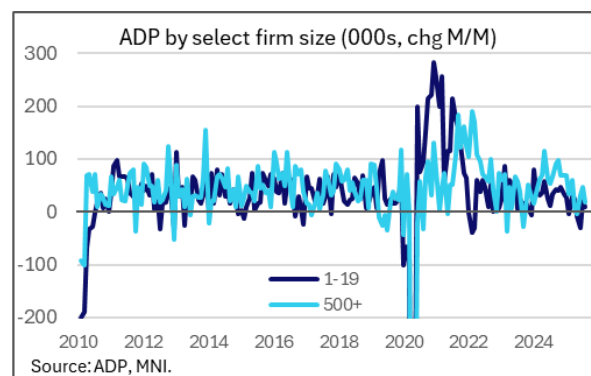
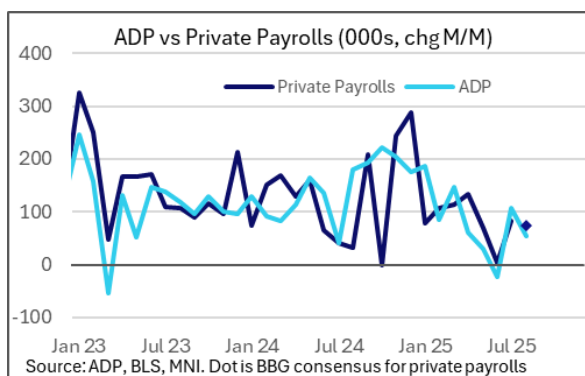
- Initial jobless claims were higher than expected as they increased to 237k (sa, cons 230k) in the week to Aug 30 from an unrevised 229k.
- The four-week average pushed another 2k higher to 231k having recently bottomed at a low 221k in late July/early August.
- Continuing claims on the other hand were lower than expected at 1940k (sa, cons 1959k) in the week to Aug 23 after yet another downward revision to 1944k (initial 1954k) in the week prior.
- They have recently topped out at 1968k in late July and 1964k in mid-June.
- Note also that revision to the prior week is more notable than it sounds as it revises away what had looked like an increase from the July payrolls reference period. The 1944k, rather than the 1954k first reported, compares with 1946k in July, 1964k in June and 1907k in May. It implies stabilization rather than a further cooling in re-hiring conditions.
- Non-seasonally adjusted continuing claims continue to track above those seen at this point in the year for 'normal' non-pandemic years, as has been the case for eight weeks or so now rather than pushing relatively higher still.



## Downside

### *A Soft ADP Report Maintains Its Prior Trend*

- ADP employment was a little softer than expected in August at 54k (cons 68k) after a marginally upward revised 106k (initial 104k) in July.
- ADP employment has pointed to subdued private sector hiring for some months now, with the three-month average inching up to 46k in August.
- This average was 37k in July, compared to average private payrolls growth of 52k after last month's huge downward revisions which have left payrolls data more in keeping with the slowdown in labor demand seen this year.
- We again point to the significant difference between results for education & health employment, with ADP still likely far weaker despite a relative improvement in latest data. The ADP series fell -12k in August after -40k in July vs +79k in the BLS private payrolls data.
- Elsewhere in the release, whilst only modest, increases in employment were seen in all firm sizes. Firms that had been struggling in recent months, bizarrely those with 20-49 and 250-499 employees, saw only very mild improvements: 20-49 saw a 2k increase after a -27k cumulative decline in the prior three months and 250-499 saw 7k after a cumulative -35k.

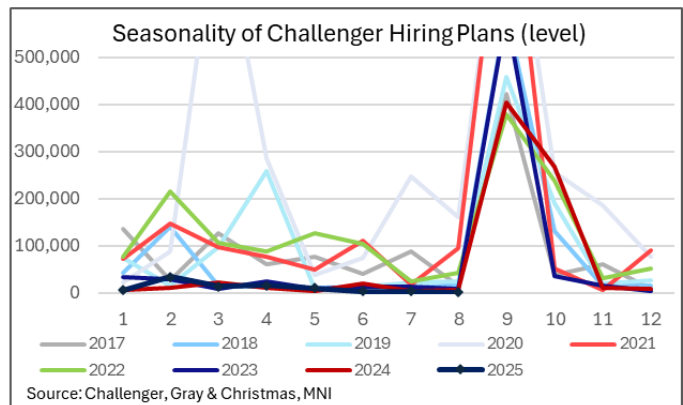
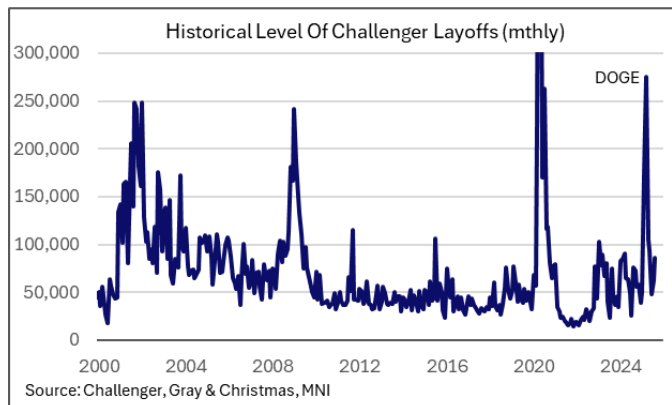
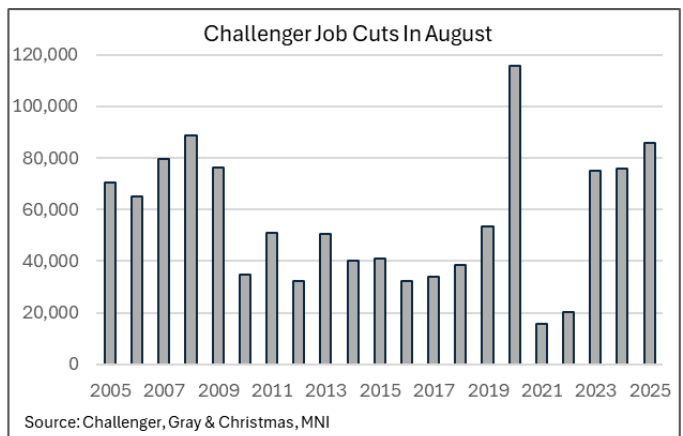
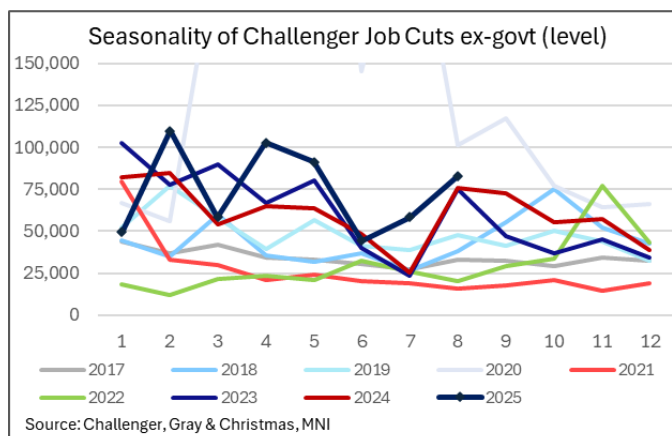


### *Challenger Report Shows Further Softening In August*

The Challenger jobs report pointed to further softening in the labor market in August. It saw the highest job cut announcements in an August since 2020 and before that 2008, whilst hiring announcements were their lowest for an August since 2009 although we caveat the latter.

- Challenger job cut announcements increased to a non-seasonally adjusted 86.0k in August after the 62.0k in July had been unusually high for a typically very low month.
- It left a 13% Y/Y increase after the booming 140% Y/Y in July, although as we're always keen to point out we can't read too much into any single month.

- Nevertheless, as the press release notes, this is the highest number of job cut announcements in August specifically since 2020 and before that 2008.
- Unusually, the pharmaceutical sector saw the largest single contribution, with 19.1k in August vs 1.6k a year ago. A quick search suggests that Merck alone was worth 6k of that.
- The Challenger jobs report smooths this pharma rise out somewhat by looking at ytd figures, with the 22.4k seen ytd still a 142% increase from the 9.3k at this point last year. “The industry is facing increasing competition as patents expire, while also refocusing on higher-profit products. Many of these companies are also implementing AI, causing restructuring and leading to job loss.”
- Next highest contributions came from a somewhat more familiar financial activities sector (18.1k vs 3.1k a year ago) and the typically large tech sector (13.0k vs 39.6k a year ago).
- As for hiring plans, “Employers announced plans to add 1,494 jobs in August, the lowest total for the month since Challenger began tracking hiring plans in 2009.” Whilst clearly a weak print – it follows 6.1k in Aug’24, 7.7k in Aug’23 and 42k in Aug’22 – remember that the Challenger survey sees extreme concentration in Sep/Oct when the two months combined tend to see more than 600k job announcements.



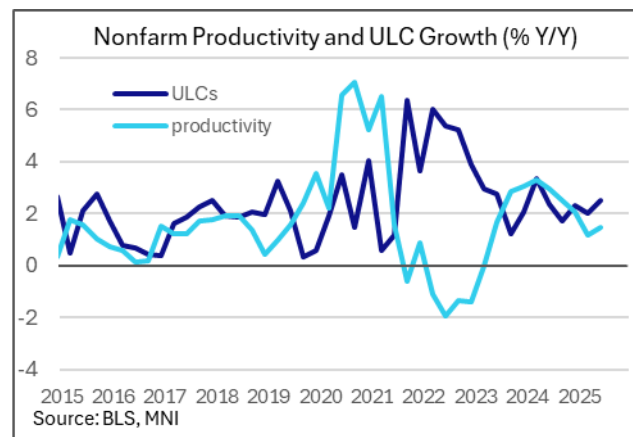
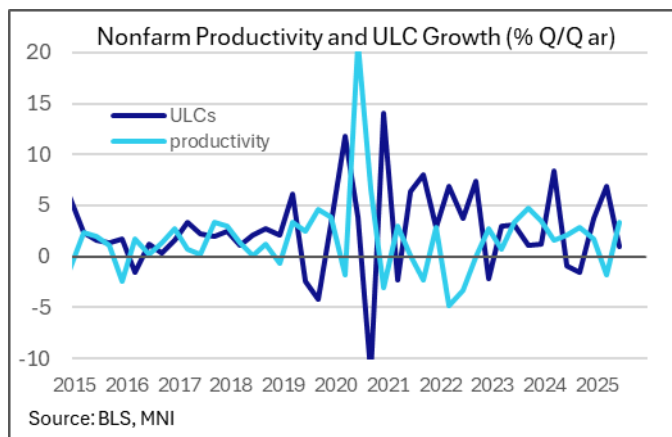
### Productivity Gains Keep Lid On Labor-Based Inflation Pressures

Productivity looked a little better in the second quarter after the initial readings were revised: productivity is now recorded as growing 3.3% Q/Q SAAR, up from 2.4% in the initial. Prior (Q1) was unrevised at -1.8%.

- And Unit Labor Costs were revised down for Q2 in the second reading (1.0% Q/Q SAAR) from the initial reading (1.6%). Again, prior (Q1) was unrevised (6.9%). That's despite an uptick in hourly compensation growth (4.3% vs 4.0% in initial). Overall hourly compensation and wages hit the fastest rate of growth since Q1 2024 but this was offset by the productivity gains.
- Hours worked were revised down to 1.1% from 1.3%, but output growth actually increased vs the previous estimate, at 4.4% (3.7% initial).
- An upgrade in output was implied by last week's upward Q2 GDP revisions, so wasn't a surprise, but the rise was 0.6pp above-expected, with ULCs growth 0.2pp lower than expected.



- ULCs are rising in the 2.0-2.5% Q/Q SAAR range over the last 4 quarters with productivity in the 1.5% range on average.
- Wage growth is probably running a little on the hotter side for comfort in reaching the 2% inflation target on that basis, but the latest quarter's productivity readings and upward revisions thereto will help assuage concerns that the labor market is a source of inflationary pressures.



## Still To Come Next Week - Preliminary Benchmark Revisions Loom Large

The BLS on Tuesday (Sept 9) will publish preliminary estimates of benchmark revisions, based off QCEW data for Q1. 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.

Fed Governor Waller (permanent voter and leading contender for next Fed Chair role) 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.

BLS Benchmark Annual Payrolls Revisions: Preliminary vs Final

	Total nonfarm				Final - Prelim 000s	Private sector				Final - Prelim 000s
	Prelim.		Final (NSA)			Prelim.		Final (NSA)		
	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

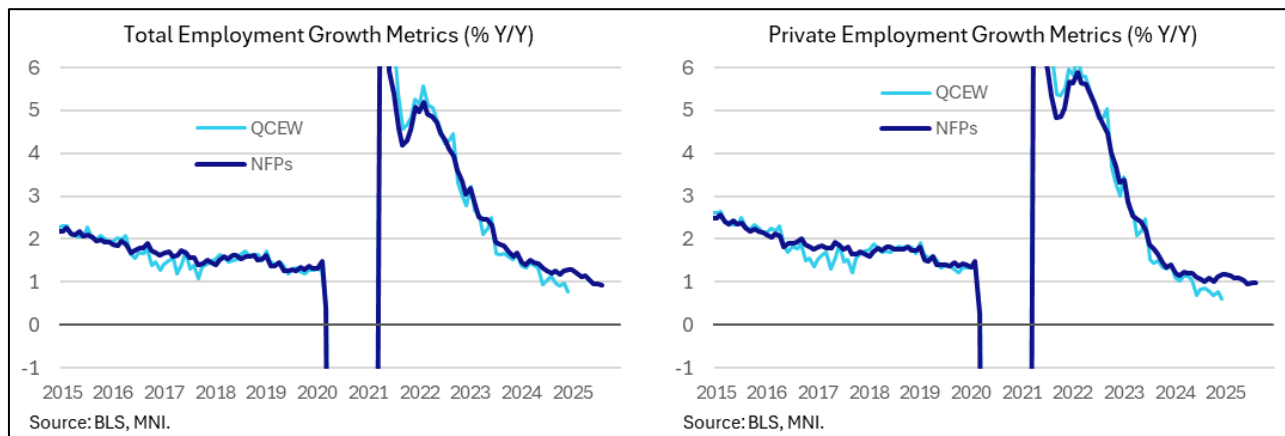
Many of the individual industry series show larger percentage revisions than the total nonfarm series, primarily because statistical sampling error is greater at more detailed levels than at an aggregated level.

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

Some additional sellside estimates:

- Goldman Sachs: A downward 550-950k, i.e. a 45-80k downward revision to average monthly payroll growth over April 24 through Mar 25.
- Nomura: 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."

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 0.9% Y/Y as of Aug 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).



Fed Chair Powell at the July 30 FOMC press conference acknowledged the prospects for particularly weak payrolls growth after these revisions but again cited the still low unemployment rate (when it was 4.12% vs latest data of 4.32% 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.*”

Of course, for a more timely example of his views on the labor market, see his [Jackson Hole address](#) on Aug 22, which included 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.”*

## 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, it's 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."