

US: July Employment Recap

- The July employment report showed the labor market is rapidly losing momentum. Disappointing job gains and sharp downward revisions have brought the 3m average of employment growth to a new cycle low of just 35k.
- The unemployment rate rose to 4.248%, the highest since October 2021. Broader household survey details were weak, with a sharp fall in employment and a tick down in labor force participation.
- Wage growth remains elevated. Average hourly earnings rose a solid 0.33%, pushing y-o-y growth to a five-month high of 3.9%.
- Today's report elevates 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. We continue to expect *rates will remain on hold until December*.

Employment losing momentum

Headline nonfarm payrolls (NFP) rose a disappointing 73k in July (Nomura: 120k, Consensus: 104k). This was accompanied by sharp downward revisions to prior months, with June job gains revised 133k lower to just +14k and May revised 125k lower to +19k (Fig. 1). The 3m average of NFP now stands at just 35k, the lowest since summer 2020 (Fig. 2).

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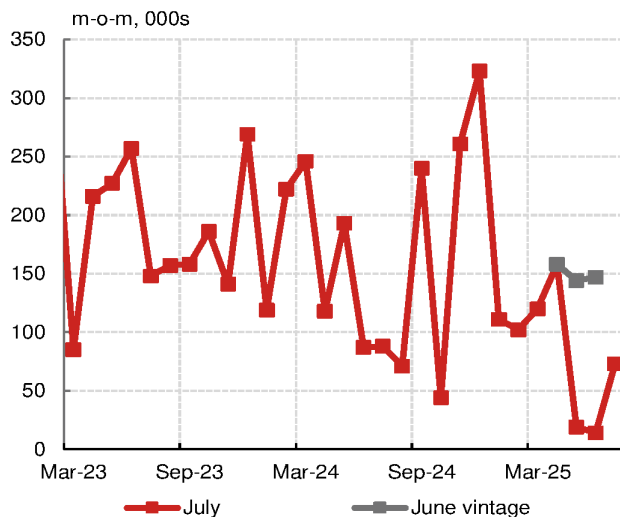
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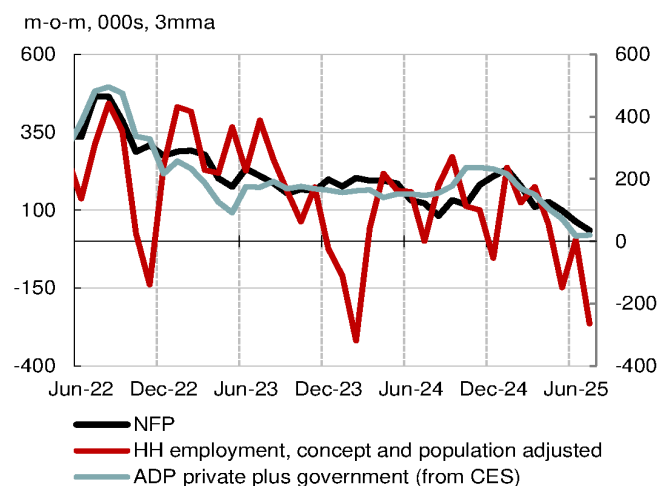
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Fig. 1: Headline NFP rose a disappointing 73k in July, along with sharp downward revisions to prior months



Source: BLS, Haver, Nomura

Fig. 2: The 3m average of NFP now stands at just 35k, the lowest since summer 2020

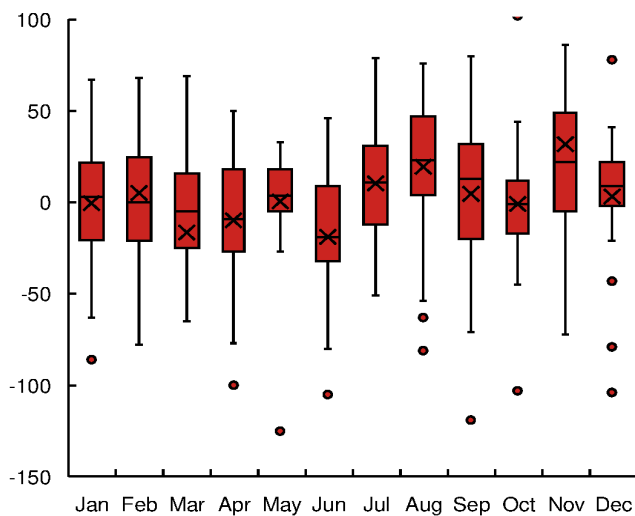


Source: BLS, Haver, Nomura

The downgrade to May NFP growth was unusually large for a third revision (Fig. 3), with most of the adjustment driven by updated seasonal factors rather than incremental information from survey responses (Fig. 4). This does not change the main takeaway that job gains are cooling rapidly; however, it does limit concerns that late survey responses contained some evidence of concentrated stress.

Fig. 3: The downgrade to May NFP growth was unusually large for a third revision

Difference between the third and second estimate (in thousands)

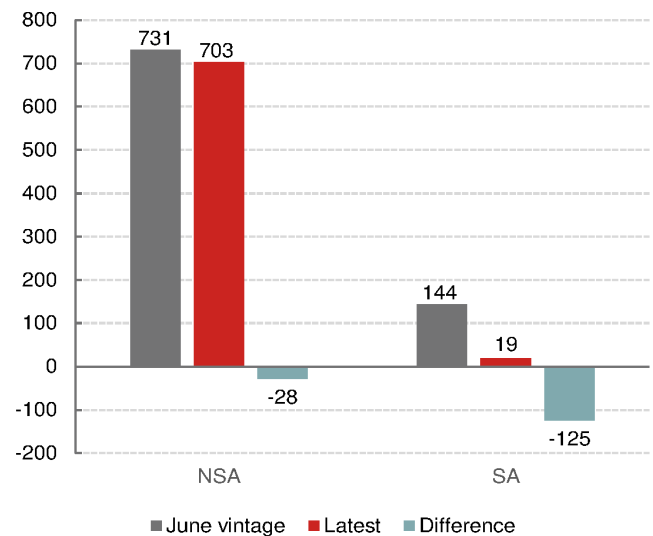


Note: The chart shows the distribution of revisions between the third and the second estimate since 2000, organized by months. The middle line shows the median, and the top and bottom of the boxes show the 75th and 25th percentile, respectively. The top and bottom whiskers show the 95th and 5th percentiles, respectively. Markers represent outliers.

Source: BLS, Haver, Nomura

Fig. 4: Most of the adjustment to May was driven by updated seasonal factors rather than incremental information from survey responses

Headline NFP for May (in thousands)

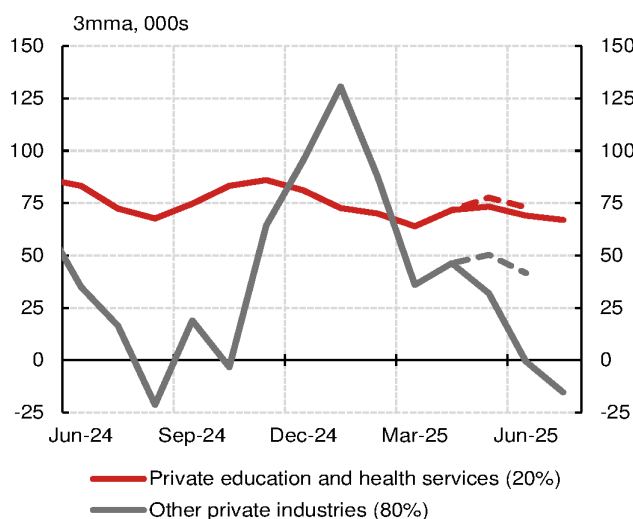


Source: Bloomberg, Haver, BLS, Nomura

The industry breadth of job gains remains poor. Education and health employment rose 79k, accounting for nearly all private job gains in July (*Fig. 5*). Retail and financial services each rose 15-16k, with most other private service industries seeing low or negative growth. Construction employment remained in positive territory, but other cyclical sectors struggled, including an 11k drop for manufacturing.

Government employment declined 10k in July, and growth in June was revised significantly lower after an outsized preliminary print (*Fig. 6*). Federal government employment fell 12k, the sixth consecutive monthly decline, driven by an ongoing federal hiring freeze and lagged impact of DOGE layoffs. We expect federal government employment will remain a drag, with deferred retirements leading to a more acute drop in the October employment report.

Fig. 5: The industry breadth of job gains remained poor, with education and health services have been driving gains in private employment

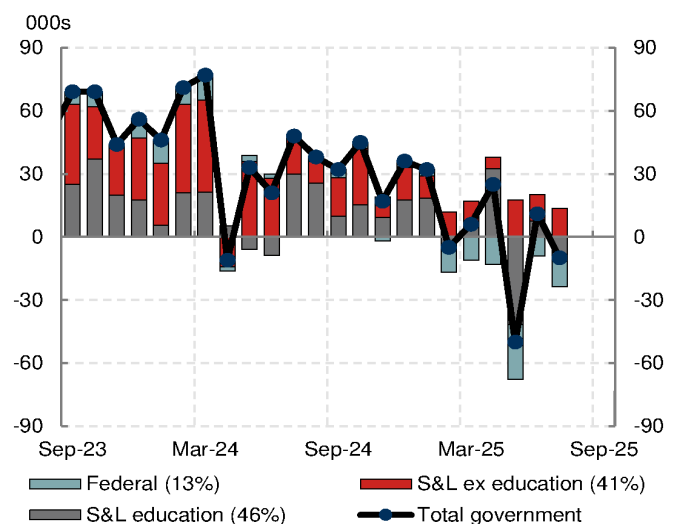


Note: Dashed lines represent June vintage. Numbers in parentheses denote share in private employment.

Source: BLS, Haver, Nomura

Fig. 6: Government employment declined 10k in July, and growth in June was revised significantly lower after an outsized preliminary print

Decomposition of government employment

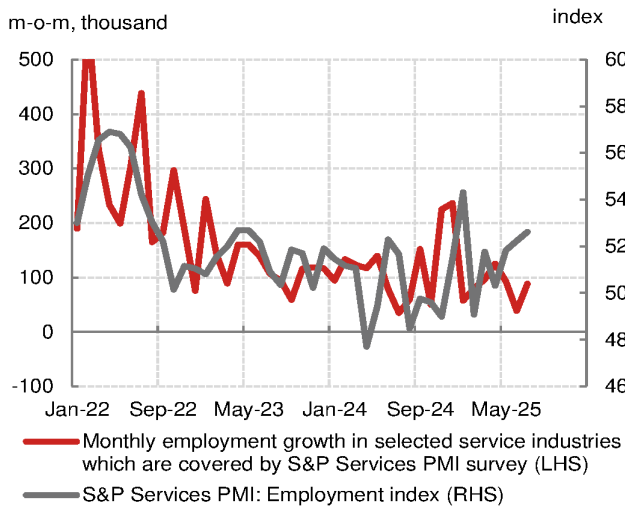


Source: BLS, Haver, Nomura

Despite the deceleration in the pace of job creation, there are still few signs of acute stress or widespread layoffs. Initial claims remained low, the employment indices in service business surveys have been relatively stable (*Fig. 7*), local government financial positions stayed robust (*Fig. 8*), and business sentiment has stabilized after earlier weakness.

Fig. 7: Service employment growth was weaker than business surveys implied

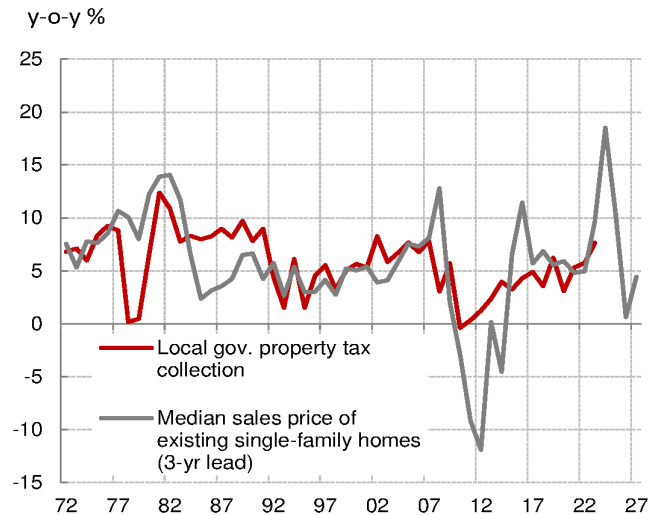
S&P Services PMI's employment index and actual employment growth in corresponding service industries



Source: BLS, S&P, Haver, Nomura

Fig. 8: Local governments' property tax collection could increase further due to the lagged effect of higher home prices

Local governments' property tax collection and house prices



Source: Department of Commerce, NAR, Nomura

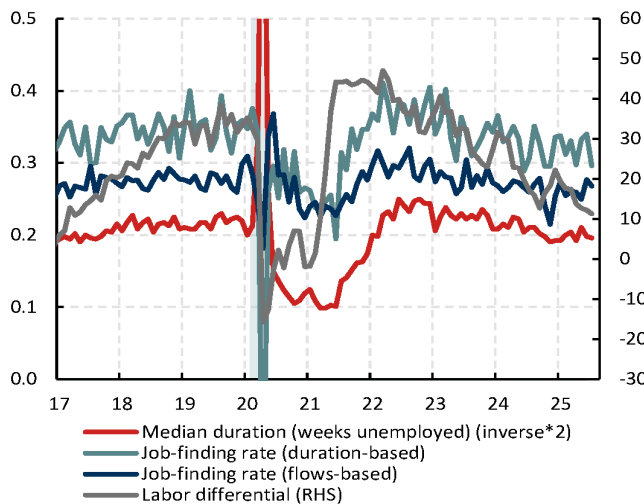
Unemployment moving higher

The unemployment rate rose to 4.248%, just rounding down to be in line with expectations (Nomura and Consensus: 4.2%). This is the highest unrounded unemployment reading since October 2021.

Broader details in the household survey were weak. HH survey employment declined 260k, continuing to run below the headline measure from the establishment survey (*Fig. 1*). NFP-concept adjusted household employment also dropped sharply by 753k in July. Labor force participation ticked down to 62.2, a multi-year low. The U6 underemployment rate rose 20bp to 7.9%, driven by an increase in workers who were part-time for economic reasons.

Fig. 9: Weakness in the household survey continues to be driven largely by slowing labor demand

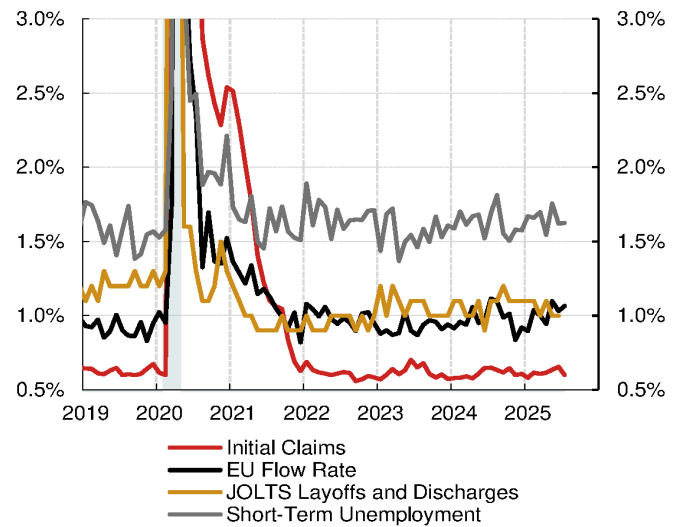
Job-finding rates



Source: BLS, The Conference Board, NBER, Haver, Nomura

Fig. 10: Measures of layoffs and job losses moved modestly higher, but remain near historic lows

Job loss rates



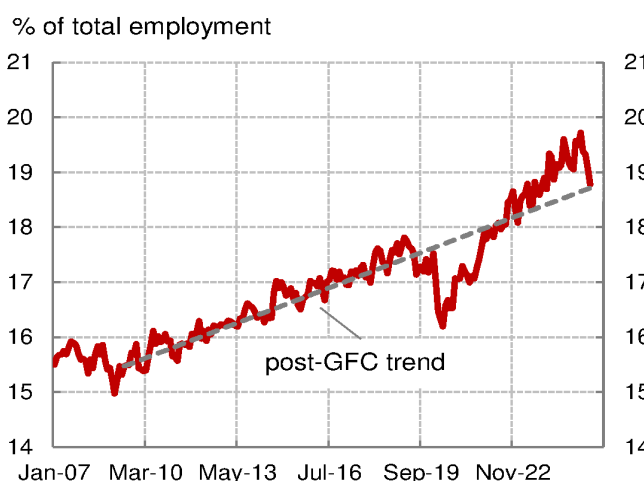
Source: BLS, NBER, Haver, Nomura

Weakness in the household survey continues to be driven largely by slowing labor demand (Fig. 9). The rate that unemployed workers found jobs ticked lower, and the average duration of unemployment rose to 24.1 weeks. Measures of layoffs and job losses moved modestly higher, but remain near historic lows, consistent with the recent decline in initial jobless claims (Fig. 10).

Details of the household survey continue to be consistent with slowing immigration. The foreign-born share of the population has trended lower for several months, and foreign-born unemployment has risen less than for native born (Fig. 11 & 12). Note, the household survey does not directly measure population growth, but demographic questions could shed some light on shifts in the population composition.

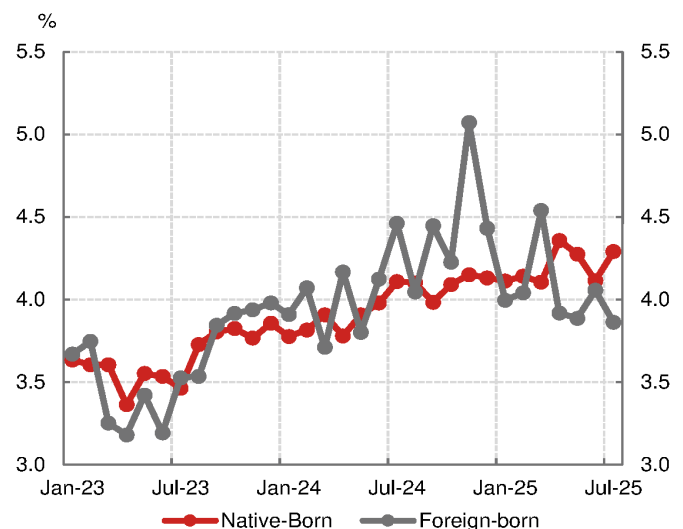
Fig. 11: The share of foreign-born workers in total employment declined sharply in recent months

Foreign-born workers, % of total employment



Source: BLS, Haver, Nomura

Fig. 12: Foreign born unemployment continues to be consistent with slowing immigration



Source: BLS, Haver, Nomura

Wage growth remains sticky

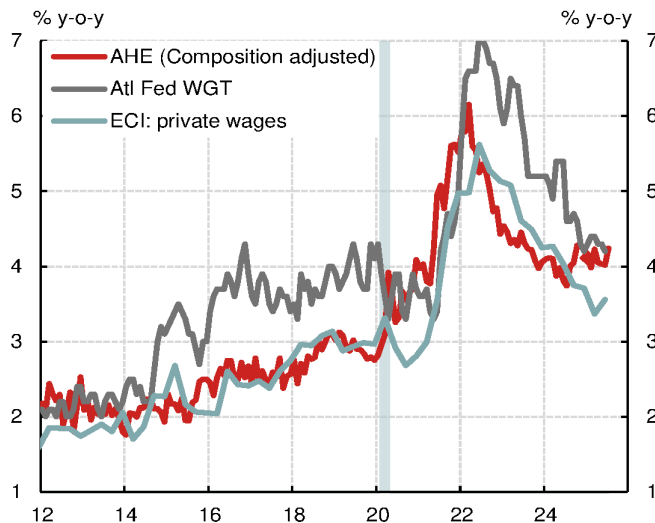
Average hourly earnings (AHE) rose 0.33% m-o-m, in line with consensus, but above our expectation for a 0.2% increase. This pushed the y-o-y growth of AHE up to 3.9%, the

highest in five months.

Strength in AHE was especially notable given a rise in the average workweek, which rose to 34.3 hours, in line with *our above-consensus forecast*. A rising workweek can be a headwind for monthly AHE growth, since this is calculated as a simple average of total pay divided by total hours worked.

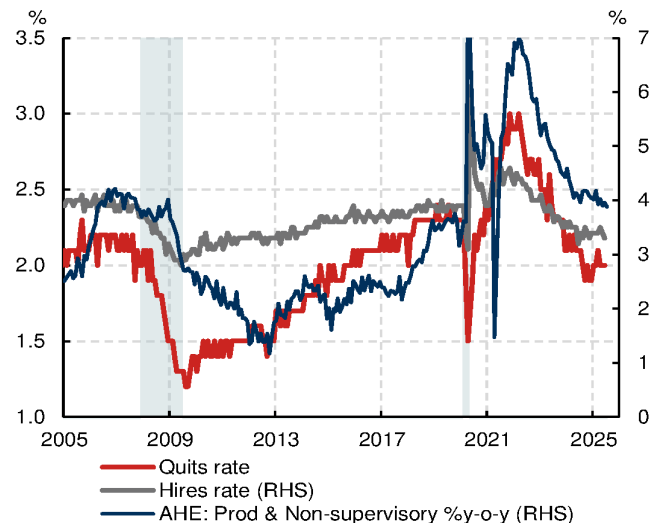
A broad range of indicators suggest wage disinflation has leveled off (*Fig. 13*). AHE growth has been in a narrow range since late 2023, and recent readings of the employment cost index, Atlanta Fed wage tracker, and ADP pay insights suggest wage growth is stabilizing. Lead indicators, such as the JOLTS quits rate, have also rebounded in recent months (*Fig. 14*).

Fig. 13: A broad range of indicators suggest wage disinflation has leveled off



Source: Atlanta Fed, ADP, BLS, NBER, Haver, Nomura

Fig. 14: Lead indicators for wage growth, such as the JOLTS quits rate, have also rebounded in recent months



Source: BLS, NBER, Haver, Nomura

Policy implications

Today's report elevates the risk of near-term Fed cuts and is likely to leave officials on watch against potential labor market weakness. NFP weakness on its own is likely insufficient to push the Fed to ease in September though. 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. We maintain our expectation that *rates will remain on hold until December*.

Appendix A-1

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