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Economic Research

Economic Briefing

US labor market close to stall speed

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In July, US non-farm payrolls rose by only 73,000. More importantly, the increases in May and June were revised sharply downward. Unemployment rose. The labor market is thus losing momentum significantly. A rate cut by the Federal Reserve at its next meeting in September is therefore back on the cards, after such a move appeared much less likely following the hawkish statements by Fed Chair Powell on Wednesday.

The data …

In July, job growth in the US came to 73,000. This is below expectations (consensus 104,000, Commerzbank 100,000). Revisions reduced the data for prior months by a total of 258,000, which is an unusually large revision. As expected, the unemployment rate rose from 4.1% to 4.2% (4.248% rounded to three digits). Average hourly earnings rose by 0.3% from the previous month. In year-on-year terms, wages rose by 3.9% after 3.8% in June (revised from 3.7%).

… and the background

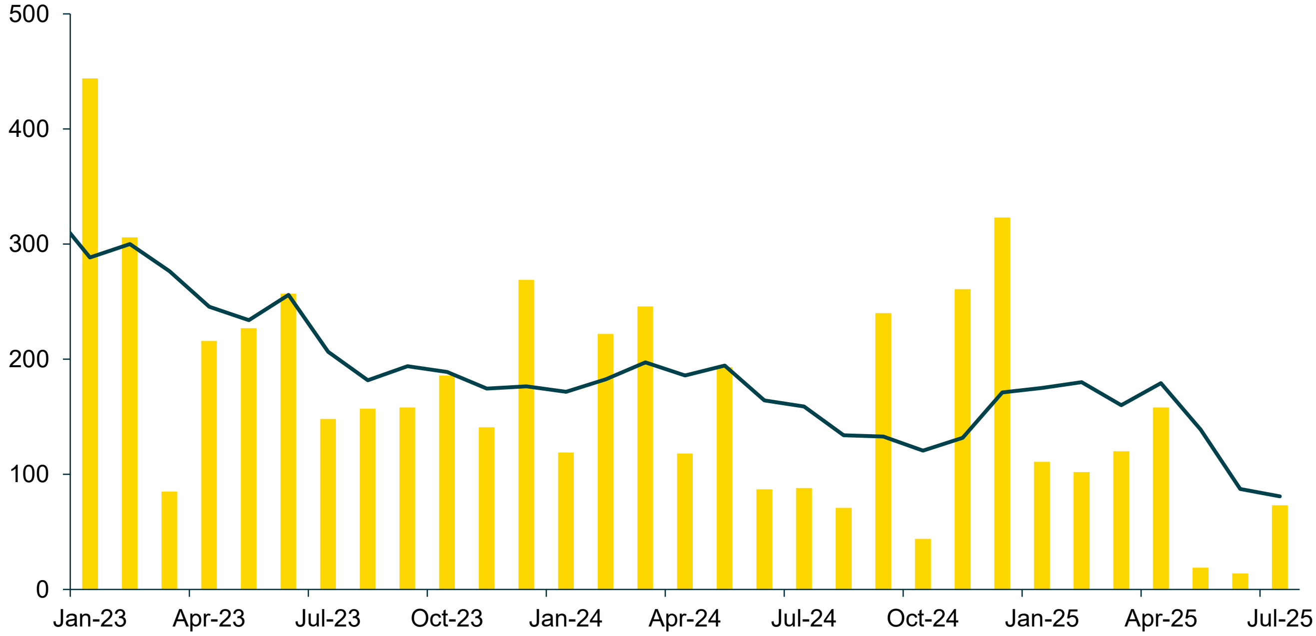
Even more important than the relatively weak employment growth of 73,000 in July is the fact that the overall picture has also deteriorated significantly. According to revised data, only 14,000 new jobs were created in June and only 19,000 in May. Previously, 147,000 and 144,000, respectively, had been reported. The trend, measured on a six-month average, is thus clearly downward (Chart 1). We had already pointed out signs of weakness beneath the surface in our previous comments, such as the fact that only a few industries have been adding jobs for some time now, and these are mainly non-cyclical sectors such as government and healthcare. One of the few positive aspects is that employees worked longer hours on average. In this respect, we should wait for the next report to see whether the weakness in job creation is confirmed.

Fed Chair Powell pointed out on Wednesday that not only is growth in labor demand is weakening, but that this also applies to labor supply due to immigration restrictions. Accordingly, fewer new jobs are needed than in the past to provide jobs for the growing population. Weak employment gains would therefore not necessarily be a problem. In this respect, Powell attaches more importance to the unemployment rate as an indicator of labor market tension than to job creation. However, unemployment rose in July, even though fewer people were available for work than in June. The unemployment rate rose from 4.1% to 4.2% and just missed being rounded to 4.3%.

Overall, we see a number of signs of weakness in the US labor market. It is possible that the burden on businesses and consumers resulting from tariffs – in the form of tariff payments and increased uncertainty – are hitting the economy harder than some had thought.

Chart 1 - Payroll gains slow

nonfarm payrolls, month-on-month change in thousands. Line: six-month moving average



Source: BLS, S&P Global, Commerzbank Research

Report brings September interest rate cut back into play

Fed Chair Powell referred to the importance of the data for future policy decisions at the press conference following the latest FOMC meeting on Wednesday. Ultimately, labor market and inflation figures will determine the timing of the next interest rate cut.

The first of the two employment reports due before the September meeting shows a noticeable slowdown. This gives tailwind to those in the Fed who currently weigh growth risks more heavily than inflation risks. In a statement released today, Fed Governor Waller, one of the two dissenters in the last Fed decision, pointed to the risks of a wait-and-see attitude on the part of the Fed. If the Fed waited too long, it could be too late; the labor market could stall before we have the clarity we need regarding the impact of the tariffs. He and his colleague Bowman, who also voted for a rate cut, are likely to feel vindicated by today's figures. And, of course, President Trump has once again personally attacked Fed Chairman Powell today, calling him a "stubborn MORON" and a disaster.

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.

Table 1 - US employment report

	Jul-25	Consensus	Jun-25	May-25	Apr-25	six month average
Nonfarm payrolls	**73**	104	14	19	158	81
Unemployment rate	**4.2**	4.2	4.1	4.2	4.2	4.2

Source: BLS, Bloomberg, S&P Global, Commerzbank Research

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