

Economic Briefing

# Weak US labor market suggests big rate cut

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## Table of contents

The data ...	1
... and the background	1
Moreover, next week's annual revision will likely "cost" 700,000 jobs	2
How big will the Fed's interest rate cut be in September?	2

Today, the first US employment report was published after President Trump had fired the head of the Bureau of Labor Statistics. Once again, the figures are disappointing. In August, US nonfarm payrolls increased by only 22,000. At the same time, the unemployment rate rose slightly to 4.3%. Employment has thus hardly grown for some time now. An interest rate cut by the Federal Reserve on September 17 seems all but certain, and a large cut by 50 basis points has become more likely.

## The data ...

In August, job growth in the US was only 22,000. This is below expectations (consensus 75,000, Commerzbank 70,000). Revisions to earlier data reduced the data for June and July by virtually the same amount, namely by a total of 21,000. As expected, the unemployment rate rose from 4.2% to 4.3%. Also in line with forecasts, average hourly wages rose by 0.3% from the previous month. In year-on-year terms, wages rose by 3.7% after 3.9% in July.

## ... and the background

The picture is becoming increasingly clear: the upturn in the US labor market is stalling. Employment has barely risen in recent months (Chart 1). According to revised data, there was even a slight decline in June. Similarly, the total number of hours worked by all employees is stagnating since March.

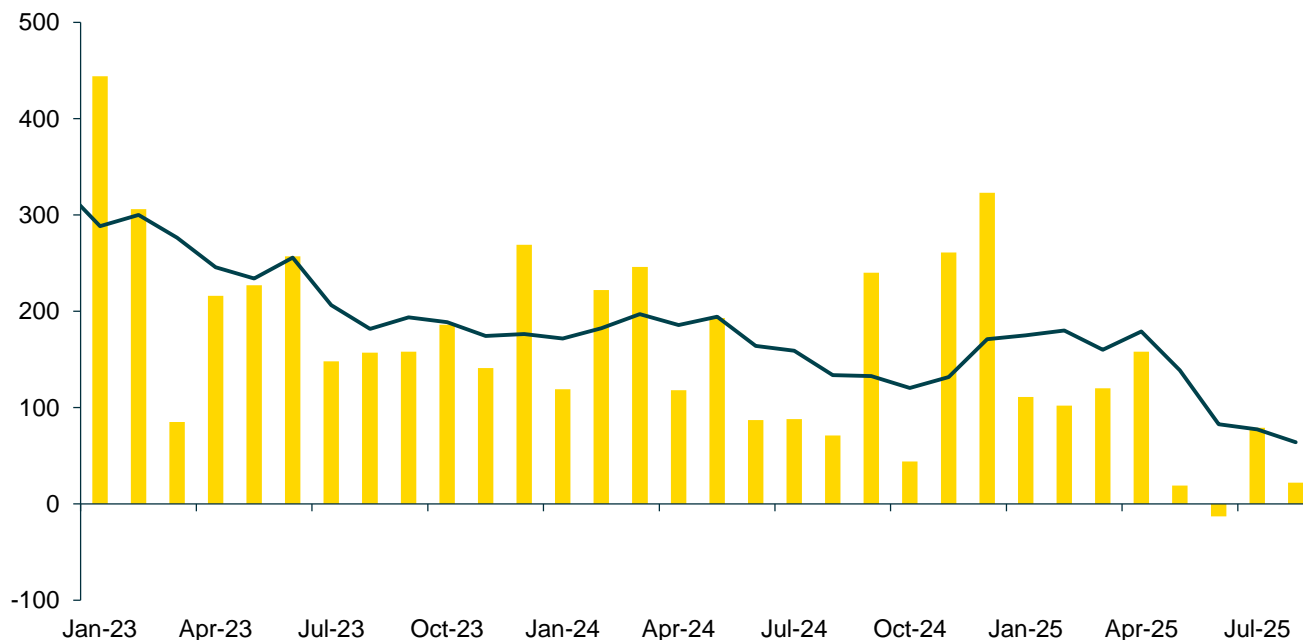
In principle, one possible explanation for the weaker employment dynamics is a lack of available workers, for example due to Trump's significantly more restrictive immigration policy. However, a much more important factor is likely to be the weakening demand for labor. The relevant details of consumer confidence surveys show that it has become more difficult to find a job. According to the Atlanta Fed, job switchers are no longer seeing higher wage increases than people who remain in their jobs. The survey conducted by the National Federation of Independent Business (NFIB) points in the same direction, showing that it has become easier to fill vacancies.

Overall, we are seeing a number of signs of weakness in the labor market. Part of the economy is booming thanks to AI-related investment, but the more interest rate-sensitive sectors, such as construction, are clearly experiencing increasing problems.



### Chart 1 - Payroll gains slowed sharply

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



Source: BLS, S&P Global, Commerzbank Research

### Moreover, next week's annual revision will likely "cost" 700,000 jobs

The unusually sharp revisions to US employment data in recent months have led to harsh reactions in politics and cost the head of the BLS agency her job. Next week's annual revision of job figures might again raise some eyebrows, as a sharp downward revision is expected.

US employment data is collected monthly through a survey of companies and government agencies and is therefore subject to the usual statistical uncertainties. Once a year, the figures undergo a comprehensive revision and are compared with an almost complete data set on US employment for the month of March (see our [briefing](#)). The revision will be published next Tuesday.

Based on the data available so far, we expect a downward revision of around 700,000 jobs. This would mean that the average monthly increase in employment in the year to March 2025 would be around 60,000 jobs lower than the 147,000 jobs previously reported. However, the data will not be incorporated into the figures until the labor market report for January 2026.

It should be noted that this means that the labor market dynamics of the past will have to be reassessed until March 2025. However, this provides only limited information for the months after that and current trends.

### How big will the Fed's interest rate cut be in September?

Fed Chair Powell and a number of other officials of the US Federal Reserve have made it clear that the Fed will resume its key interest rate cuts at its next meeting on September 17 after a nine-month hiatus. Four months of weak job growth, averaging only 27,000 after an average increase of 123,000 in the first four months of the year, are likely to increase pressure for a large 50 bp rate cut.

Such a significant slowdown in job growth usually only occurs in the run-up to a recession. This will increase concerns at the Fed that it has waited too long and must now act more quickly. The situation is reminiscent of last summer, when the Fed initiated its cycle of interest rate cuts with a large move after a series of weak figures (and a similarly sharp downward revision in the annual benchmark revision).

Governors Waller and Bowman, who voted against the majority opinion in favor of an interest rate cut at the last meeting, are likely to feel vindicated. Even before today's figures, however, other Fed members had been expressing increasing unease about developments in the labor market in recent



weeks. We are reviewing our current forecast of a cut of “only” 25 basis points, also in light of the new inflation data that will also be published next week.

**Table 1 - US employment report**

	<b>Aug-25</b>	Consensus	Jul-25	Jun-25	May-25	six month average
Nonfarm payrolls	<b>22</b>	75	79	-13	19	64
Unemployment rate	<b>4.3</b>	4.3	4.2	4.1	4.2	4.2

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



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