

U.S. Municipal Bond Market

The Curious Case of the 2025 U.S. Labor Market: Strain Now Points to Imminent Rate Cut(s)

The U.S. labor market is flashing red. August payrolls rose by just 22,000, the weakest in years, and prior months saw revisions, including a negative June print. Job growth has stalled, wage gains remain muted, and headwinds—from trade frictions to immigration limits—are weighing heavily on the economy. This backdrop points toward a 25 bps Fed cut in September, and investors are increasingly pricing in additional moves in October and December, and there is even speculation of a 50 bps cut at the upcoming meeting. In this note, we break down the latest labor related data and its implications for investors, policymakers, and municipal credit fundamentals.

Tom Kozlik

Head of Public Policy and

Municipal Strategy

214.859.9439

tom.kozlik@hilltopsecurities.com

State Economies: Growth with Pockets of Weakness

The Federal Reserve Bank of Philadelphia's [July 2025](#) State Coincident Indexes show that while 38 states posted economic growth, 10 experienced declines—highlighting regional disparities. Strong housing markets, healthy state reserves, and stable employment trends continue to support municipal credit. However, emerging labor market softening in key regions signals the need for vigilance as we transition from the Golden Age of Public Finance to the [Post-Golden Age Realignment](#).

States Showing Recent Economic Weakness, July 2025: Coincident Index Declines

Period	DE	IA	MD	MA	MN	MO	MT
July 2025	141.84	137.66	146.13	158.67	157.75	142.12	137.69
12 month	0.70%	-0.35%	1.60%	-0.03%	1.52%	0.94%	2.71%
3 Month	-0.40%	-0.42%	-0.32%	-0.21%	-0.49%	0.12%	-0.13%
1 Month	-0.19%	0.08%	-0.10%	0.19%	-0.49%	-0.02%	0.14%

Period	OH	OR	TN	SD	UT	WY	US
July 2025	135.97	166.11	162.32	156.66	187.58	129.57	147.85
12 month	0.68%	1.08%	1.95%	1.53%	2.94%	1.62%	2.36%
3 Month	0.30%	-0.24%	0.33%	-0.20%	0.10%	0.12%	0.47%
1 Month	-0.04%	-0.06%	-0.03%	-0.43%	-0.01%	-0.04%	0.12%

Source: Philadelphia Federal Reserve and HilltopSecurities.

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Markets Brace for Fed Action Amid Weak Jobs and Data Controversy

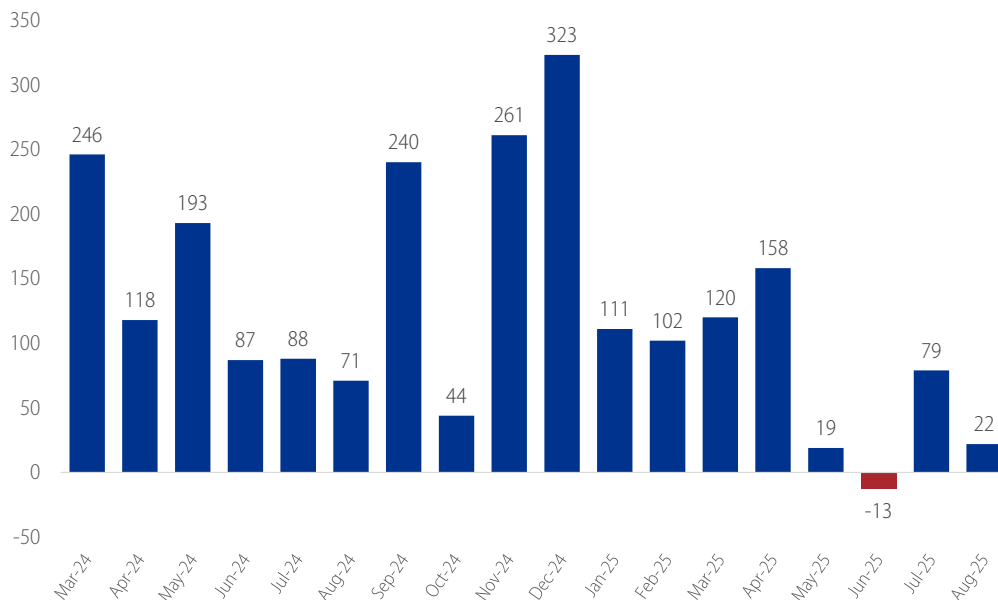
[August's nonfarm payroll report](#) highlighted a weakening labor market, with only 22,000 jobs added, well below expectations, and the unemployment rate climbed to 4.3%, its highest level since 2021. Downward revisions, including June's -13,000 decline, underscore that job growth has nearly stalled over the past few months, while manufacturing employment continues to contract. This persistent softness, combined with a deteriorating economic backdrop, has strengthened expectations for Federal

Reserve rate cuts in September, October, and potentially December, as Treasury yields fell sharply following Friday morning's release.

The July report was also disappointing, showing just 73,000 jobs added alongside 258,000 in downward revisions for May and June. In a controversial move, President Trump dismissed Bureau of Labor Statistics Commissioner Erika McEntarfer, alleging data manipulation without providing evidence—a development that risks politicizing labor data, undermining market confidence, and complicating both monetary and fiscal policy responses.

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Non-Farm Payrolls Total Change (in thousands)

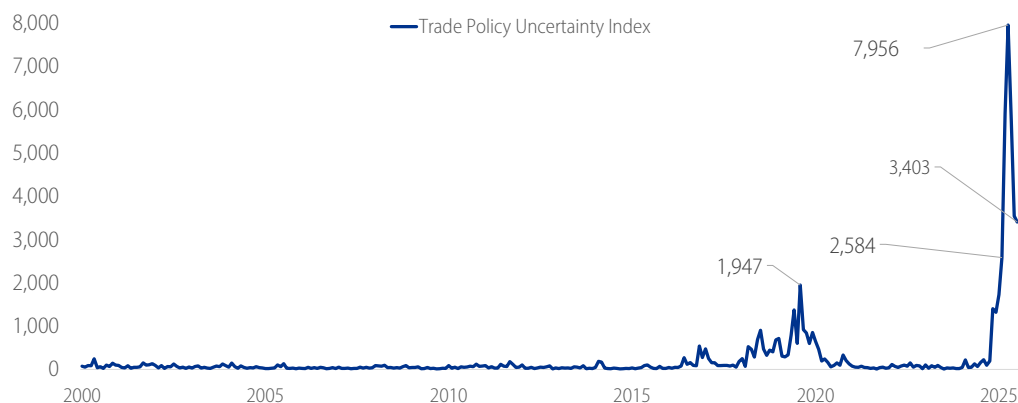


Source: Bureau of Labor Statistics & HilltopSecurities.

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Trade Policy Uncertainty is Still Dangerously High

The Baker, Bloom, and Davis Trade Policy Uncertainty Index registered 3,403 in July—down from April but still historically elevated. Persistent global trade disruptions and geopolitical tensions are weighing on hiring, investment, and supply chain decisions. For investors, this uncertainty is a key risk factor that could continue to dampen growth and destabilize markets.



Source: Scott Baker, Nick Bloom, Stephen Davis and HilltopSecurities.

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Hiring Momentum Slows Amid Tariff Concerns

The U.S. hiring rate fell to 3.3% in June 2025, below the pre-COVID average of 3.8%. According to the [Dallas Fed](#), nearly half of surveyed businesses expect tariffs to negatively impact operations this year. This slowdown reflects growing caution among employers and could foreshadow broader economic cooling.

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The U.S. Hiring Rate



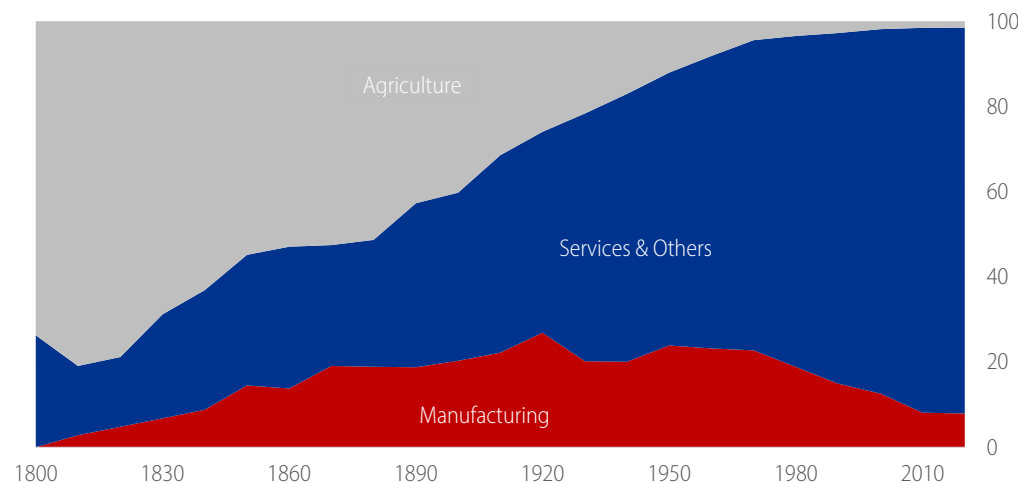
Source: Bureau of Labor Statistics

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Manufacturing Jobs Remain a Small Slice of U.S. Employment

Despite the rhetoric, a large-scale revival of U.S. manufacturing jobs is unlikely. Structural forces—automation, productivity gains, and global labor dynamics—have reshaped the sector. Rather than chasing an improbable comeback, policymakers and investors should focus on future-oriented industries like AI, robotics, and biosciences. This strategic pivot has profound implications for labor policy and municipal credit, as explored in our recent analysis: [Manufacturing Revival Meets Economic Reality](#).

U.S. Employment by Sector (% of employment by sector)



Source: Robert Z. Lawrence and HilltopSecurities.

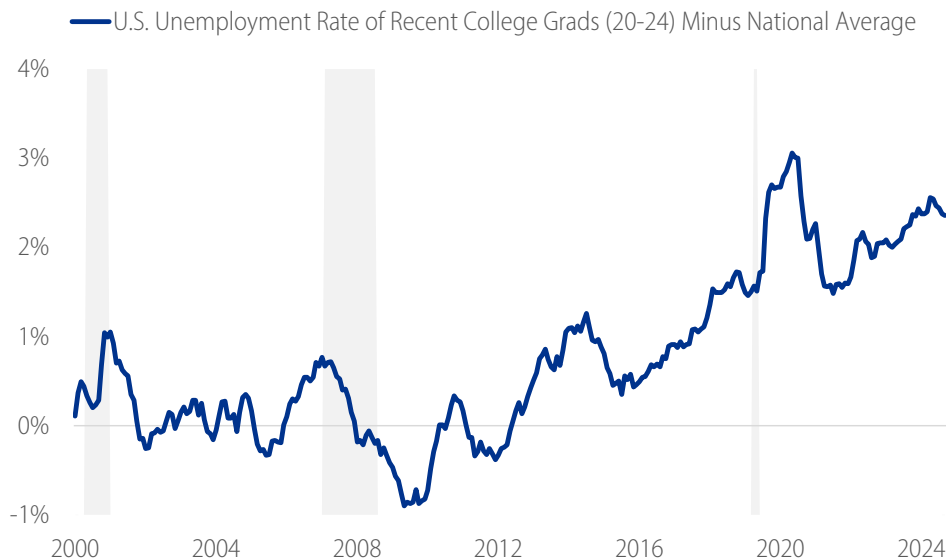
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College Grads Fall Behind in a Changing Labor Market

Since ChatGPT's launch in late 2022, concerns have intensified about the impact of generative AI on the labor market— particularly on entry-level positions. [The Economist tracks](#) the “relative unemployment” (the gap between new grads and the national average), which has been rising since 2009 but accelerated after bottoming recently at 1.5% in May 2022. Their actual unemployment rate has been elevated.

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In a major development, [Stanford researchers published](#) a detailed analysis in late August using ADP payroll data, revealing that generative AI has disproportionately weakened job prospects for younger workers in software development and customer service—validating long-standing fears with hard data. This marks a critical inflection point in how technology is merging with the labor market, signaling a deeper and more structural shift in the future of work.



Source: Bureau of Labor Statistics, Economist, HilltopSecurities.

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