

Labor Market Stalls Again, Eyes Turn to Inflation Data

The markets responded quickly to another disappointing jobs report, with Treasury yields falling and rate cut expectations rising. Nonfarm payrolls increased by just 22k in August, well below the 75k forecast. Private payrolls added 38k, while manufacturing employment declined by 12k, marking the fifth consecutive monthly decline in factory jobs.

The Bureau of Labor Statistics (BLS) warned earlier in the morning that the release could be delayed due to data retrieval issues, but the report was published on time, and it didn't disappoint in terms of weakness. Net downward revisions of -21k to prior months brought the three-month average payroll gain to just 29k, holding steady at the weakest pace since June 2020. June payrolls were revised to -13k, the first negative monthly change since December 2020, showing that the slowdown in job growth has been more persistent than previously known.

Goods-producing industries lost 35k jobs. Meanwhile, federal government employment fell by 12k, attributed to the ongoing effects of DOGE. Temporary help services declined by 10k, the fourth straight monthly drop, often a leading indicator of broader labor market weakness.

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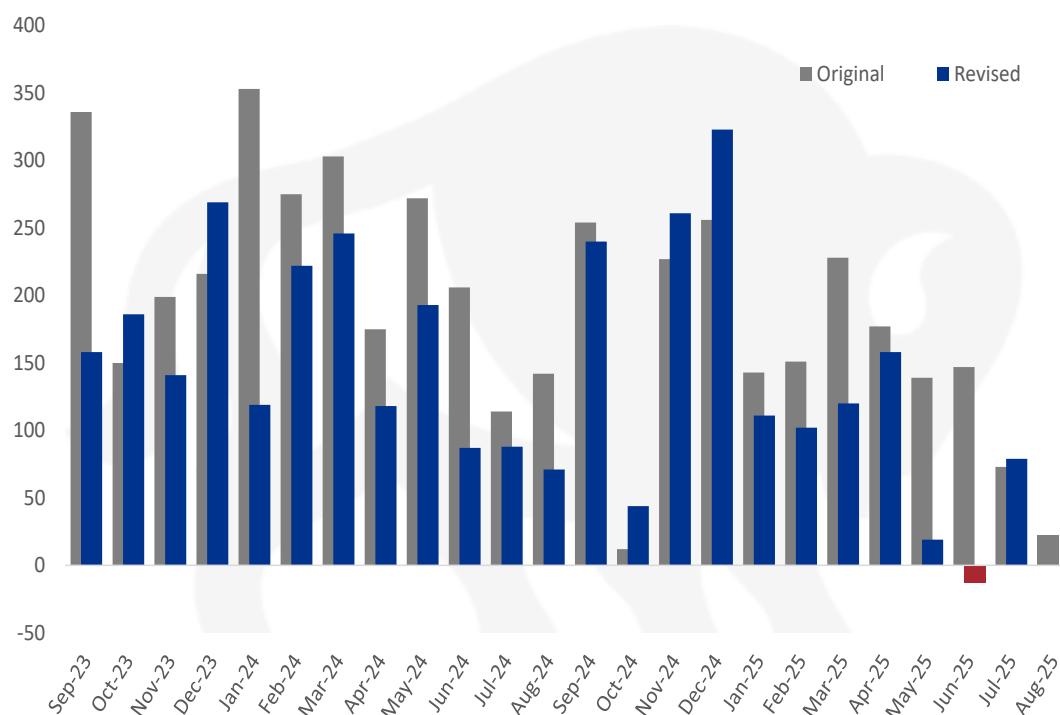
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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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On the other hand, private service sectors added 63k jobs, led by education and healthcare (47k) and leisure and hospitality (28k). Retail trade also added 11k, though gains in these lower-paying sectors were offset by losses in IT, financial services, and professional and business services.

The headline unemployment rate (U3) rose to 4.3%, while the broader underemployment rate (U6) climbed to 8.1%. The underemployment rate includes discouraged workers and those working part-time for economic reasons, offering a more comprehensive view of labor market slack. The rise in both measures suggests that job seekers are facing increasing challenges, even as the household survey showed a 288k increase in employment and a 436k rise in the labor force, reversing three straight monthly declines.

Earlier in the month, job openings and ADP payrolls also came in weaker than expected, reinforcing the narrative of a slowing labor market. With the Fed's next meeting approaching, today's data strengthens the case for a September rate cut, and a 50-basis-point move is now back on the table.

Next week's Consumer Price Index (CPI) release on September 11th will be closely watched. If the inflation data comes in below or in line with expectations, versus running hot, it could provide the Fed with greater flexibility. Also worth noting, the BLS annual payroll revision due Tuesday could subtract as much as 700k to 1 million jobs from previously reported totals, potentially amplifying the case for policy easing.

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Market Indications as of 9:19 A.M. Central Time

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| DOW | Down -141 to 45,480 (HIGH: 45,637) |
| NASDAQ | Down -16 to 21,692 (HIGH: 21,713) |
| S&P 500 | Up 9 to 6,511 (NEW HIGH) |
| 1-Yr T-bill | current yield 3.64%; opening yield 3.74% |
| 2-Yr T-note | current yield 3.48%; opening yield 3.58% |
| 3-Yr T-note | current yield 3.45%; opening yield 3.54% |
| 5-Yr T-note | current yield 3.56%; opening yield 3.64% |
| 10-Yr T-note | current yield 4.09%; opening yield 4.15% |
| 30-Yr T-bond | current yield 4.79%; opening yield 4.84% |

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