

Yields Lower on Weak July Jobs Report

US businesses shed -23k jobs in July, falling well below estimates of +80k. In fact, not one economist ahead of the release projected payroll growth below +40k, making the negative headline a surprising miss. The report was further weakened by a combined 103k downward revision to the prior two months. This brings the three-month average payroll gains down to only 20k jobs from 111k previously.

At this point, payroll growth has slipped below the estimated breakeven pace of approximately 50k necessary to absorb new entrants into the labor force. Earlier this week, the ADP employment report also pointed to a cooling labor market after posting its weakest reading of the year and coming in at 44k, below expectations.

Job losses were concentrated in a handful of sectors. Leisure and hospitality fell by 40k, while government payrolls declined by 53k. The decline in leisure employment was surprising given the conclusion of the World Cup. Government employment may have been affected by seasonal adjustments surrounding staffing and the start of the new school year. Retail employment also weakened, declining by 19k jobs during the month. On the positive side, construction payrolls increased by 22k and manufacturing added 5k jobs, indicating portions of the economy are benefiting from ongoing investment and infrastructure development.

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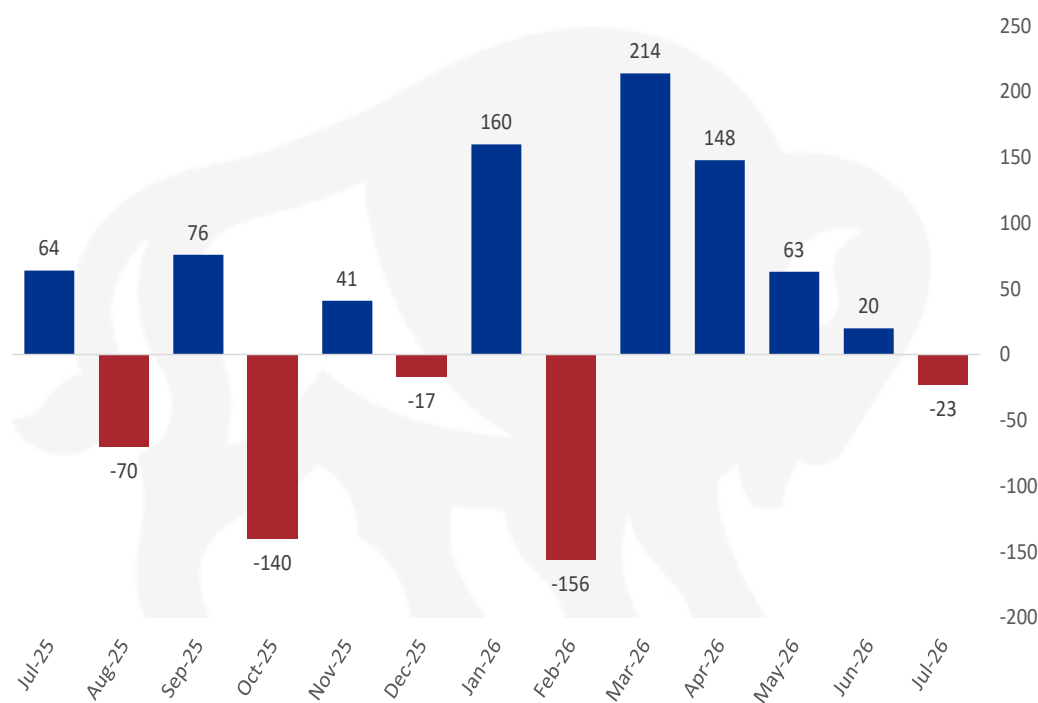
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Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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Wage growth was slower for the month. Average hourly earnings rose only 0.1% during the month, causing the year-over-year increase to slow to 3.2% from 3.5% previously. The average workweek held steady at 34.3 hours while aggregate hours worked were unchanged during the month.

In the separate household survey, both employment and unemployment declined during July. The number of employed Americans fell by 87k while the number of unemployed individuals declined by 178k, resulting in a contraction of approximately 264k people in the labor force. As a result, the unemployment rate edged down to 4.1%.

At first glance, a lower unemployment rate would typically suggest improving labor market conditions. However, the decline was largely driven by the shrinking labor force rather than stronger hiring. The labor force participation rate fell to its lowest level since February 2021, continuing a downward trend associated with an aging workforce and slower hiring activity. The employment-to-population ratio has also declined from 59.7% at the end of last year to 58.9% today. With fewer individuals working or actively seeking employment, labor market conditions appear softer than the headline unemployment rate would suggest.

Bond yields moved lower following the release as the market reassesses the likelihood of further Fed tightening. Treasury yields declined across much of the curve while equity markets also traded higher as investors viewed the softer labor data as reducing pressure on the Fed to maintain a hawkish policy stance.

Interest rate futures also shifted following the release. Markets now assign a 45% probability of a rate increase at the September FOMC meeting, down from around 60% before the report. While markets still anticipate one rate increase before year-end, today's data lowers concerns that the Fed may need to maintain a more aggressive policy stance.

Attention now turns to next week's July inflation reports, which may prove more important for monetary policy expectations. With payroll growth slowing, labor-force participation declining, and wage pressures moderating, investors will be looking to see whether inflation moves lower as well. A soft CPI report would likely reinforce the view that the Federal Reserve can move further away from its recent hawkish bias, while another upside inflation surprise could keep the possibility of further policy tightening on the table.

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Market Indications as of 9:12 A.M. Central Time

DOW	Up 34 to 53,919 (HIGH: 54,349)
NASDAQ	Up 130 to 26,478 (HIGH: 27,094)
S&P 500	Up 21 to 7,731 (HIGH: 7,737)
1-Yr T-bill	current yield 4.01%; opening yield 4.04%
2-Yr T-note	current yield 4.20%; opening yield 4.25%
3-Yr T-note	current yield 4.25%; opening yield 4.30%
5-Yr T-note	current yield 4.35%; opening yield 4.39%
10-Yr T-note	current yield 4.64%; opening yield 4.68%
30-Yr T-bond	current yield 5.20%; opening yield 5.22%

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