

US Labor Market Watch

Downward revisions to job gains show a weakening labor market

Javier Amador / David Cervantes / Fátima Del Río

May and June job growth revised sharply lower

Recent labor market data shows a marked slowdown over the past three months through July. Non-farm payrolls rose by just 73,000, a notably weak print compounded by significant downward revisions for the preceding two months and an uptick in the unemployment rate.

Substantial downward revisions to employment figures for May and June point to a notable shift in the labor market.. The initially reported gains of 144,000 and 147,000 jobs were revised down sharply to just 19,000 and 14,000, respectively. These adjustments imply a combined reduction of 258,000 jobs from earlier estimates. As a result, the average monthly job creation pace over the past three months has fallen to only 35,000 jobs, pointing to a near standstill in hiring activity.

The household survey data reported an increase in the unemployment rate from 4.1% to 4.2%. While still within the Federal Reserve's long-term range, this uptick, coupled with weak growth in labor force participation, which fell to 62.2%, its lowest since November 2022, underscores that the labor market is losing momentum.

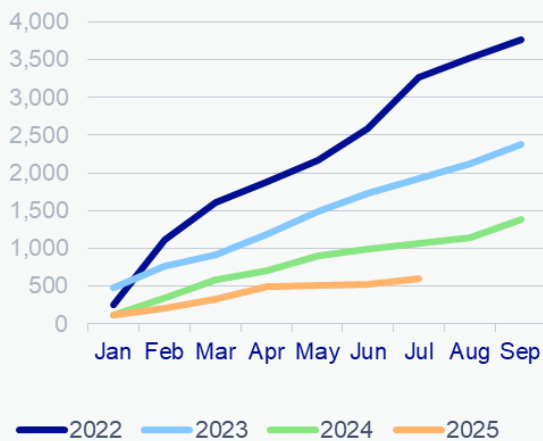
Progress in wage growth easing has stalled this year. Average hourly earnings increased by 0.3% month-over-month, with annual growth at 3.9% while the three-month annualized growth rate increased by nearly 0.7 percentage points to 4.1%. These trends seem at odds with softening demand in the labor market, but could be reflecting the early effects of tightening immigration-related conditions. Data in the coming months will confirm whether that is the case.

The odds of a 25bp rate cut in September in the futures market jumped following the release of July payrolls and stand now at 89%. Powell explained in the Q&A following the last FOMC meeting that the majority view [around monetary policy] was still what it has been: "inflation is above target, maximum employment is at target, that means policy should be a little bit restrictive." Yet, two voting members felt that the time had already come. While we continue to expect the impact of tariffs on core goods inflation to build in the months ahead—a risk the Fed is likely aware of and shares—, July's employment figures have probably shifted its view of the labor market. Powell noted that if the Fed came to see the risks to its two goals as more balanced, policy should shift from

restrictive to neutral — somewhat lower than current levels¹. A growing share of voting members likely now see these risks as more balanced, making a September rate cut far more probable following the labor market shift.

Strong evidence of hiring freeze over the past three months

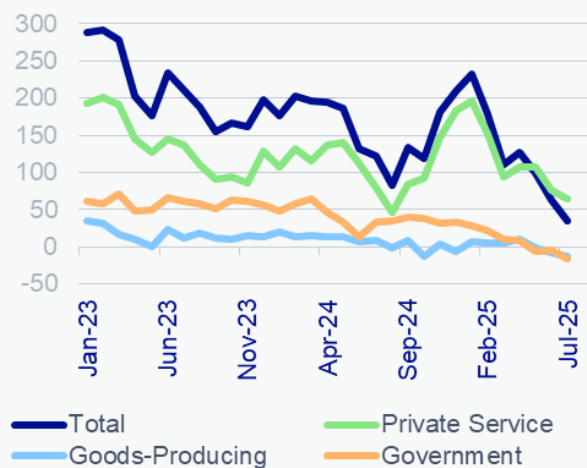
NONFARM PAYROLL EMPLOYMENT (THOUS, CUM. MoM, SA)



Source: BBVA Research based on data by Haver Analytics.

The private services sector is adding jobs at slower pace

NONFARM PAYROLL EMPLOYMENT (THOUS, MOVING AVG. 3 MONTHS, SA)

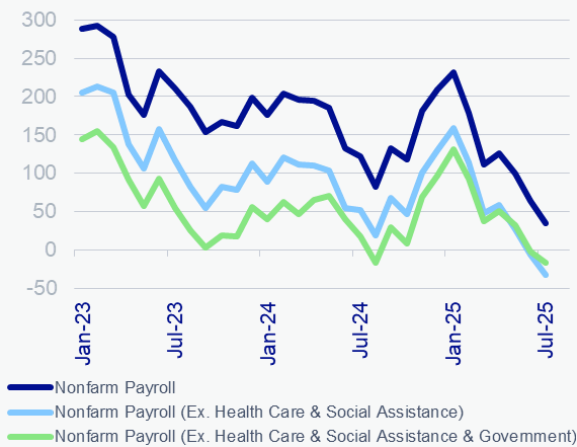


Source: BBVA Research based on data by Haver Analytics.

¹ “If you came to the view that risks to both [goals] are more in balance, that would imply that policy shouldn’t be restrictive, it should be more neutral, and that would be somewhat lower than where we’re now.”

Most added jobs in July were in just one sector: health care...

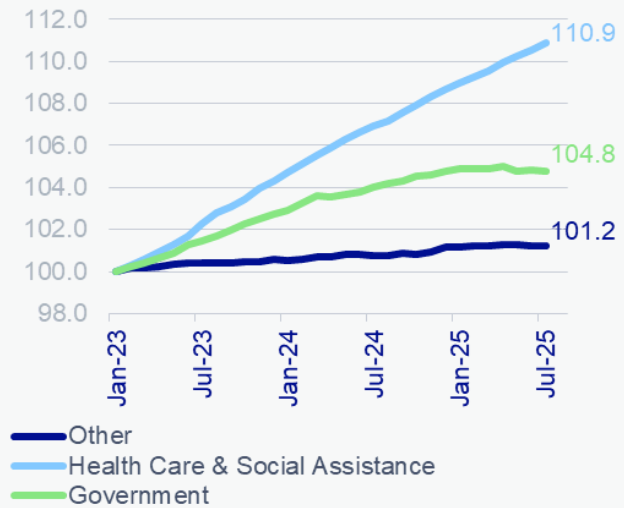
NONFARM PAYROLL EMPLOYMENT (MoM, THOUS, SA 3MMA)



Source: BBVA Research based on data by Haver Analytics.

... the sole driver of job growth this year

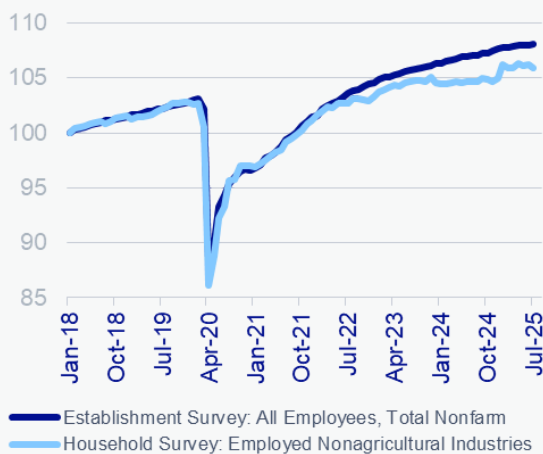
NONFARM PAYROLL EMPLOYMENT (INDEX JAN/2023=100, SA)



Source: BBVA Research based on data by Haver Analytics.

The household survey is still running below the establishment survey

TOTAL EMPLOYMENT (INDEX JAN/2018=100, SA)



Source: BBVA Research based on data by Haver Analytics.

Uptick in the UR shows that demand for workers slowed faster than supply

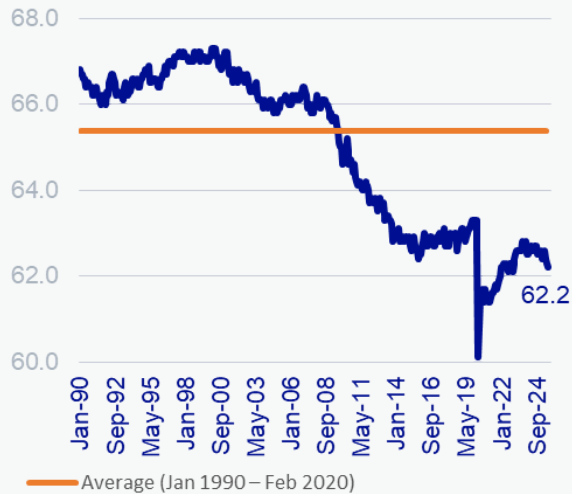
UNEMPLOYMENT RATE (% OF LABOR FORCE, SA)



Source: BBVA Research based on data by Haver Analytics.

Labor force participation fell to its lowest level since November 2022

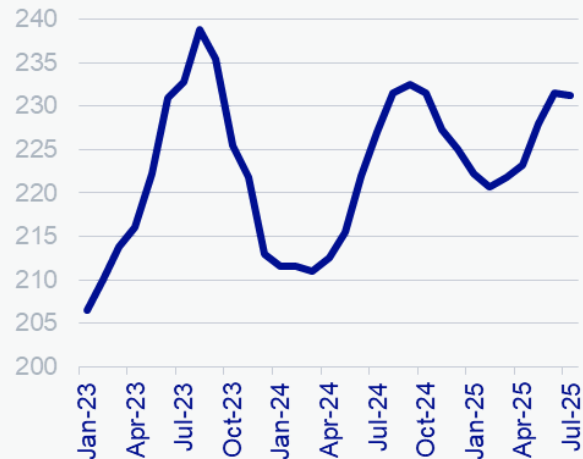
PARTICIPATION RATE (% OF LABOR FORCE, SA)



Source: BBVA Research based on data by Haver Analytics.

No clear rise in initial claims (yet?), pointing to a hiring freeze rather than layoffs

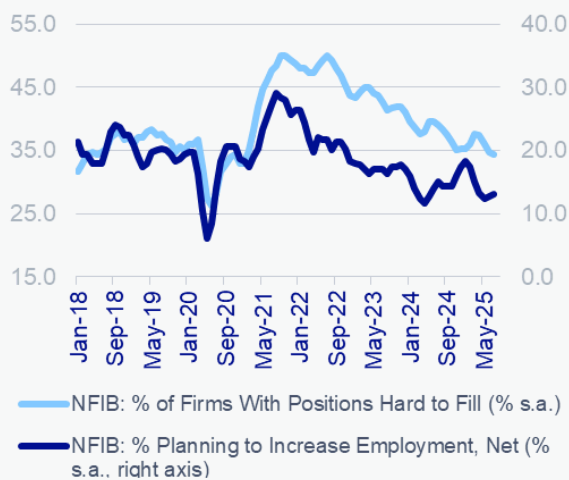
INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE (THOUS, MOVING AVG. 4 MONTHS, SA)



Source: BBVA Research based on data by Haver Analytics.

Demand for workers seems set to remain weak in the near future

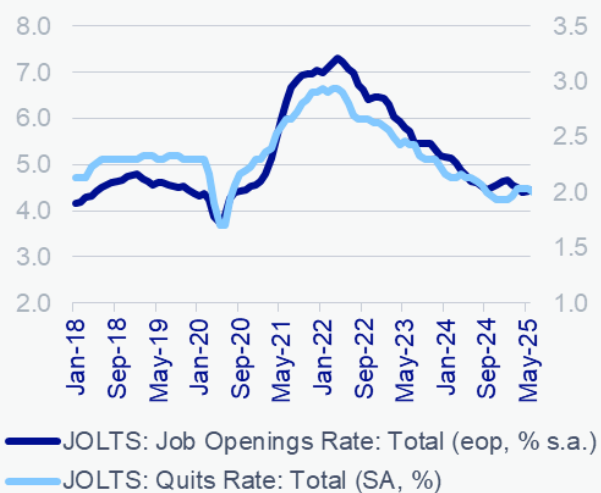
NFIB: SMALL BUSINESS ECONOMIC TRENDS (%, MOVING AVG. 3 MONTHS)



Source: BBVA Research based on data by Haver Analytics.

The labor market's excess demand seen in previous years is gone

JOB OPENINGS AND QUILTS RATE (%, MOVING AVG. 3 MONTHS)

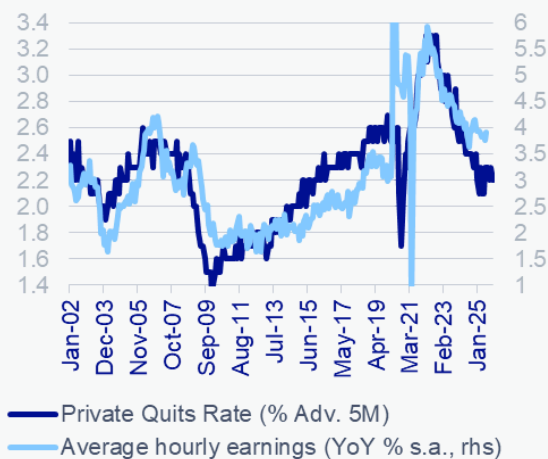


Source: BBVA Research based on data by Haver Analytics.

A low quits rate points to a further softening in wage growth ahead

JOB PRIVATE QUITS RATE AND AVERAGE HOURLY EARNINGS

(ANNUAL VAR. %, SA)

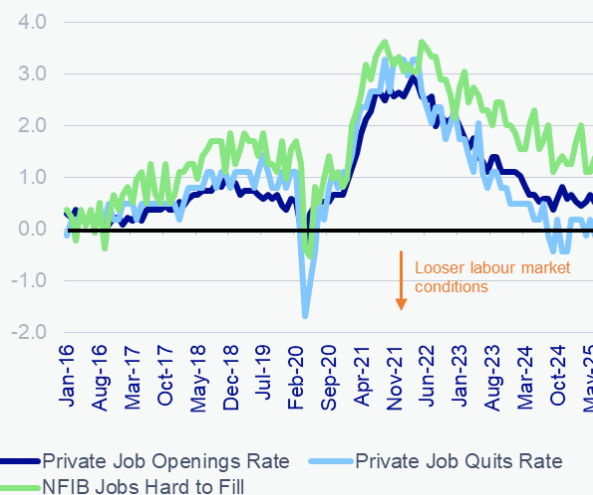


Source: BBVA Research based on data by Haver Analytics.

Labor market conditions continue to loosen...

THE LABOUR MARKET SLACK INDICATORS

(Z-SCORES)

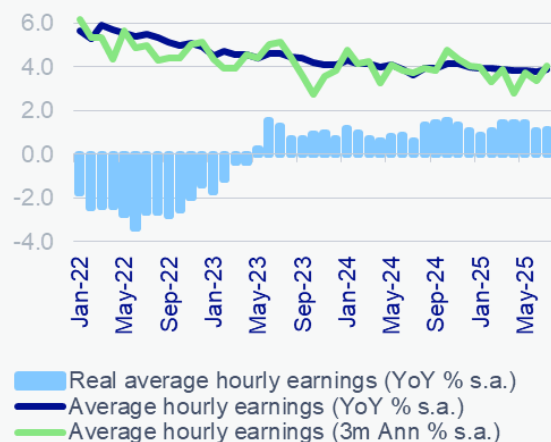


Source: BBVA Research based on data by Haver Analytics.

... but wage growth has stopped easing, likely affected by a weaker supply

AVERAGE HOURLY EARNINGS

(ANNUAL VAR. %, SA)

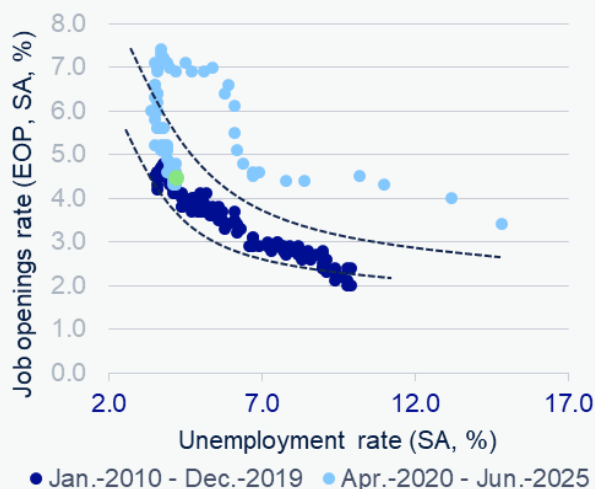


Source: BBVA Research based on data by Haver Analytics.
 * Weighted Overall: 3-MMA of Median Wage Growth (NSA, Y/Y %Chg)

Most of the labor market adjustment has come from fewer openings

THE BEVERIDGE CURVE

(%, SA)



Source: BBVA Research based on data by Haver Analytics.

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