

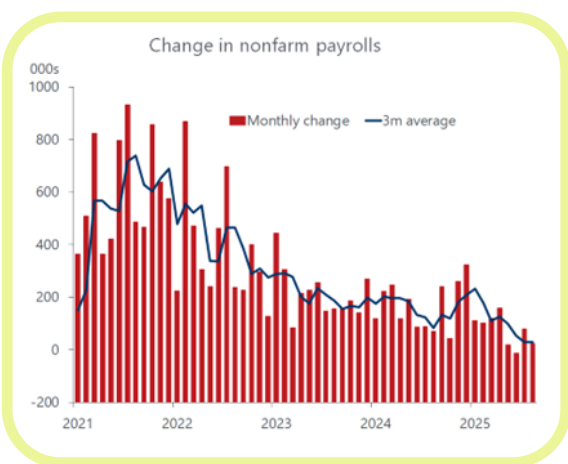
Weekly Economic Commentary

September 5, 2025

The continued slowdown in job growth last month will not please the administration, but at least it wasn't blindsided by the astonishing downward revisions to previous months that appeared in the July jobs report. Still, the August reading on the labor market added a punctuation mark to the slowdown that has been underway for several months. To be sure, the fact that the unemployment rate only edged up to a still-historically low 4.3 percent from 4.2 percent in July confirms that fewer new jobs are needed to limit the rise in unemployment. The lowered breakeven rate primarily reflects slower labor force growth as tighter immigration policies and deportations are removing increasing numbers of foreign-born workers from the labor supply.

That said, as is customary in weakening job market, the previous estimates of payrolls for June and July combined were revised down, even as the initial estimate of August job growth, at 22 thousand, came in about 50 thousand short of expectations. That leaves the average increase in payrolls over the past three months at 29 thousand, including the first negative reading for a month in June since 2020. Fed Chair Powell has drawn comfort from the

balanced trend that has prevailed in recent months, with both the demand for and supply of workers declining together. However, it's doubtful that a sustained 29 thousand increase in job growth would be enough to accommodate the potential increase in the working age population for much longer. We estimate that roundly 50 thousand is the new breakeven rate that would keep the unemployment rate steady.



Following the weaker than expected jobs report on Friday, the financial markets priced in three rate cuts by the Fed this year, one in each of the remaining rate-setting meetings. That's a bit too aggressive from our lens given the sticky inflation backdrop and resilient consumer spending, which is being driven in good part by the solid wealth gains of upper-income households. Despite the setback on Friday, stock prices are hovering around record highs

and homeowners are still sitting on more than \$34 trillion of housing equity, up 75 percent over the past five years. Clearly, a rate cut at the September 17 meeting is a slam dunk, as rates are modestly restrictive, and the Fed does want to normalize policy as the economy weakens. However, we believe that upcoming reports on inflation and jobs will heavily influence the Fed's decision to cut rates again in October.

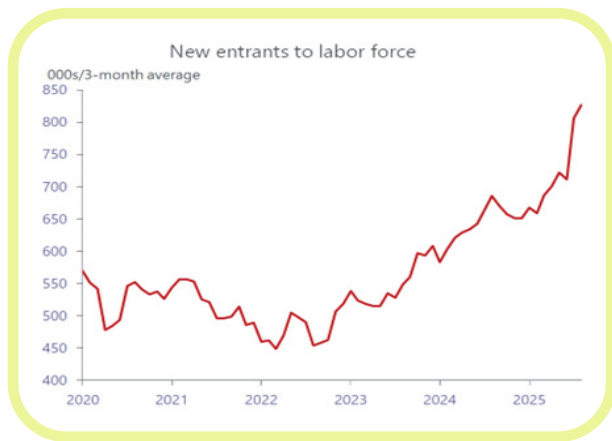
Keep in mind that the August jobs report, coming just a month before schools reopen, is one of the noisiest of the year and is often revised higher. As it is, the job market is hardly falling off a cliff but is clinging to the "no hiring, no firing" narrative that has been a feature of labor conditions for some time. Simply put, the engine of job growth is downshifting, but not all cylinders are sputtering. The share of prime-age workers holding jobs increased last month and, at 80.7 percent, is higher than its long-term average. What's more, wages are still rising at a decent pace. While the annual increase in average hourly earnings slipped from 3.9 percent to 3.7 percent for all private sector workers, the nonmanagement, mostly blue-collar workers that comprise the bulk of the labor force, saw their earnings strengthen a fraction to 3.9 percent. Importantly, both are increasing faster than inflation, injecting more muscle into household purchasing power.

Another encouraging feature of the August jobs report is that the labor force increased for the first time in four months. Since the increase exceeded the rise in unemployment, it nudged up the unemployment rate. Many describe this as a "good" reason for a higher rate because it



signals a healthy labor market that is luring workers off the sidelines. Indeed, new entrants to the labor force have been surging, reaching the highest three-month average since 2016. As a share of unemployment, it is the highest since 2014. But there is some question as to whether this is happening for the right reason. Historically, new entrants flood the labor market when the economy is booming, generating lucrative pay packages that entice workers to take jobs. That's clearly not the case now, which suggests that paychecks are becoming more of a need than a luxury.

We note that while the official unemployment rate, at 4.3 percent is the highest since October 2021, the broader unemployment rate, U6, which includes people taking part-time jobs because they can't find full-time positions, jumped to 8.1 percent last month, which is the highest since April 2018. Hence, many of the new entrants who did land jobs last month did not command the highest salaries. Unsurprisingly, the number of workers in involuntary part-time positions has increased by almost 300 thousand over the last two months. Since the spring, the number of workers holding multiple jobs has hovered around the highest levels on record, at just under 9 million. Meanwhile, job seekers are having a harder time finding any kind of work. The share of unemployed workers on the jobless lines for more than 6 months rose from 24.9 percent to 25.7 percent in August, the highest since February 2022.



The sluggish tone sounded by the August jobs report confirms that heard elsewhere, including the Fed's Beige book, the ADP report and the BLS JOLTs report for July. No doubt, a good part of the hiring restraint is related to uncertainty over tariffs, as companies bide their time until they gain more clarity on this issue. One thing is clear: if tariffs are aimed at bolstering the domestic manufacturing sector, the benefits are not showing up on the hiring front. Manufacturing jobs fell for the fourth consecutive month in August, the longest stretch of losses since

the Covid recession. At this juncture, it appears that the higher input costs linked to tariffs are having an immediate effect, whereas the incentive for companies to bring operations – and jobs -- to the U.S. has yet to bear fruit.

Aside from manufacturing, an equally disturbing slowdown in hiring is taking root in the health and social services sector. So far this year, this sector has provided more than 85 percent of the increase in total payrolls. But the job boost from this source has fallen for five consecutive months, and the 47 thousand increase in August was the smallest since December 2022. It's unclear if this slowdown is more of a supply (less foreign-born workers) or a demand problem (the high cost of caregiving). But even at its shrunken size, without the 47 thousand increase in payrolls last month, job growth would have turned negative. This is not a high-paying sector, so a further deterioration would only amplify the income disparity that is already a growing problem in the economy.

Key Financial Indicators

| Interest Rates | September 5 | Week Ago | Month Ago | Year Ago |
|---|-------------|----------|-----------|----------|
| 3-month Treasury bill | 4.01 | 4.15 | 4.24 | 5.05 |
| 6-month Treasury bill | 3.88 | 3.98 | 4.12 | 4.72 |
| 2-year Treasury note | 3.52 | 3.63 | 3.77 | 3.65 |
| 5-year Treasury note | 3.59 | 3.70 | 3.84 | 3.49 |
| 10-year Treasury note | 4.08 | 4.23 | 4.29 | 3.71 |
| 30-year Treasury bond | 4.76 | 4.93 | 4.85 | 4.02 |
| 30-year fixed mortgage rate | 6.50 | 6.56 | 6.63 | 6.35 |
| 15-year fixed mortgage rate | 5.60 | 5.69 | 5.75 | 5.47 |
| Stock Market | | | | |
| Dow Jones Industrial Index | 45400.86 | 45544.90 | 44175.61 | 40345.00 |
| S&P 500 | 6481.50 | 6460.26 | 6389.45 | 5408.42 |
| NASDAQ | 21700.39 | 21456.00 | 21450.02 | 16690.83 |
| Commodities | | | | |
| Gold (\$ per troy ounce) | 3639.80 | 3516.4 | 3456.7 | 2526.8 |
| Oil (\$ per barrel) - Crude Futures (WTI) | 61.97 | 64.01 | 63.61 | 68.20 |

Key Economic Indicators

| | Latest Month/Quarter | Previous Month/Quarter | Two-Months/ Quarters Ago | Average-Past 6 Months or Quarters |
|---|-------------------------|---------------------------|-----------------------------|---|
| Nonfarm Payrolls (August) - 000s | 22 | 79 | -13 | 64 |
| Unemployment Rate (August) - Percent | 4.3 | 4.2 | 4.1 | 4.2 |
| Average Hourly Earnings (August) - % change | 0.3 | 0.3 | 0.2 | 0.3 |
| ISM Manufacturing Index (August) | 48.7 | 48.0 | 49.0 | 48.7 |
| ISM Nonmanufacturing Index (August) | 52.0 | 50.1 | 50.8 | 50.9 |

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