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July Employment Report

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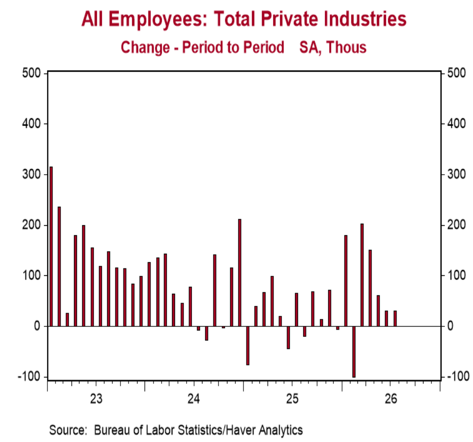
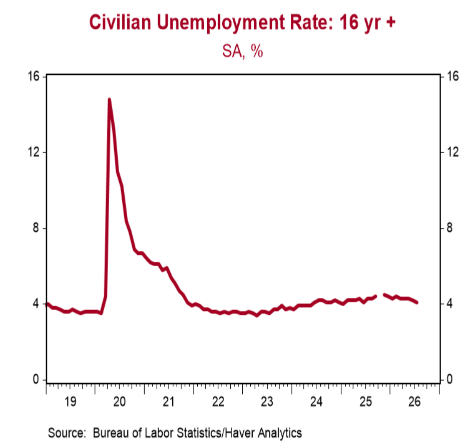
- Nonfarm payrolls declined 23,000 in July, widely lagging the consensus expected gain of 80,000. Payroll gains for May and June were revised lower by a total of 103,000, resulting in a net decline, including revisions, of 126,000.

- Private sector payrolls rose 30,000 in July but were revised down by 55,000 in prior months. The largest increases in July were in construction (+22,000) and health care (+22,000); the largest declines were in leisure & hospitality (-40,000), retail (-19,000), and financial activities (-14,000). Manufacturing rose 5,000 while government fell 53,000.

- The unemployment rate ticked down to 4.1% in July from 4.2% in June.

- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.1% in July and are up 3.2% versus a year ago. Aggregate hours were unchanged in July but up 0.7% from a year ago.





Implications: Jobs declined in July but this is not a sign of some sort of AI apocalypse. We expect moderate growth in payrolls in the months ahead. Nonfarm payrolls declined 23,000 in July, widely missing the 80,000 consensus-expected gain and coming in lower than any forecast by any Economics group on Bloomberg. Worse, payroll gains for May and June were revised lower by 103,000. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, fell 87,000, corroborating the weakness. And although the unemployment rate ticked down to 4.1%, this was due to a 264,000 drop in the labor force (people who are either working or looking for work), which is not a good sign. However, we highly doubt this is some sort of new negative trend. The key reason for the decline in payrolls in July was an unusual 50,000 drop in education workers employed by local governments, which could reverse in the months ahead. Private-sector payrolls increased in July, including in construction and manufacturing. A combination of strict immigration enforcement and an aging population should mean slow growth in jobs without pushing up unemployment, and that's exactly what we've witnessed in the past year. Nonfarm payrolls are up an average of 26,000 per month in the past year even though the jobless rate has declined to 4.1% from 4.3%. And when the average is only 26,000, some months should be negative. Other reports on the labor market remain solid. New claims for jobless benefits ticked up 1,000 last week to a still-low 199,000; continuing claims rose 24,000 to a still-low 1.801 million. The most important part of today's report for the markets is that average hourly earnings rose only 0.1% in July and are up only 3.2% from a year ago. This, along with the decline in jobs in July, should make it even tougher for the Federal Reserve to raise rates at the next meeting in September. In other recent news, productivity (output per hour of work) rose at a 1.4% annual rate in the second quarter. But, it is up 2.2% from a year ago, which is higher than the 50-year trend of 1.8%. Meanwhile, unit labor costs – how much businesses pay workers for each unit of output – increased at a 1.3% rate in Q2 and are up only 1.4% in the past year. This is slower than the Fed's target of 2.0% inflation and suggests that the Fed has time to remain patient.

Employment Report *All Data Seasonally Adjusted*	Jul-26	Jun-26	May-26	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	**4.1**	4.2	4.3	4.2	4.3	#N/A
Civilian Employment (monthly change in thousands)	**-87**	-507	149	-148	-153	#N/A
Nonfarm Payrolls (monthly change in thousands)	**-23**	20	63	20	44	26
Construction	**22**	5	2	10	4	7
Manufacturing	**5**	11	-2	5	5	-1
Retail Trade	**-19**	-4	5	-6	2	1
Finance, Insurance and Real Estate	**-14**	-2	-20	-12	-10	-10
Professional and Business Services	**18**	34	6	19	18	10
Education and Health Services	**25**	54	24	34	36	46
Leisure and Hospitality	**-40**	-43	42	-14	-6	7
Government	**-53**	-10	2	-20	-10	-26
Avg. Hourly Earnings: Total Private*	**0.1%**	0.3%	0.2%	2.3%	2.5%	3.2%
Avg. Weekly Hours: Total Private	**34.3**	34.3	34.3	34.3	34.3	34.3
Index of Aggregate Weekly Hours: Total Private*	**0.0%**	0.0%	0.1%	0.3%	0.3%	0.7%

*Source: Bureau of Labor Statistics *3, 6 and 12 month figures are % change annualized*