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US Non-farm payrolls: Just one data point, but still…

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Employment change (thousands, unless otherwise noted)	Jul 24	Jun 24	May 24	Apr 24	Mar 24
Unemployment rate (%)	4.3	4.1	4.0	3.9	3.8
Avg. hrly earn all (Monthly % Chg)	0.2%	0.3%	0.4%	0.2%	0.4%
Avg. wkly hour all (Monthly % Chg)	-0.1%	0.3%	0.4%	-0.1%	0.7%
Nonfarm employment	114	179	216	108	310
Total private	97	136	206	108	232
Goods-producing	25	11	12	-3	33
Construction	25	20	13	-5	37
Manufacturing	1	-9	3	7	-6
Priv. Serv providing	72	125	194	111	199
Wholesale trade	4	9	-2	7	10
Retail trade	4	-12	8	14	19
Transp. & Warehousing	14	22	26	21	5
Information	-20	1	-1	-3	2
Financial	-4	10	12	-3	4
Business services	-1	2	55	-17	17
Temporary help	-9	-23	14	-24	-1
Education, health	57	79	69	98	76
Leisure, hospitality	23	1	18	-9	54
Government	17	43	10	0	78
Federal Government	1	2	1	0	12

Source: Haver Analytics

- It's only one data point on its own, but coming on the heels of other soft reports this past week, today's labour market news adds to the evidence that the upside surprise in Q2 growth is giving way to a less rosy climate this summer. Job creation decelerated to a lacklustre 114K in July, well below the consensus expectation of 175K. The unemployment rate rose by two ticks to 4.3% (vs. 4.1% expected), with the participation rate up one tick, and wage growth decelerated to 0.2%. There were also 29K in negative revisions to the prior two-month job count. A Fed rate cut in September was already a given and has long been in our forecast, but we'll have to give some thought to adding a third quarter point cut to our existing forecast for only two cuts from here to year end. That said, there's a lot of data to come before the Fed has to make that decision, and the CPI trend will also be an important consideration for the pace of rate cuts ahead.
- The July payrolls pace is the second slowest month seen since Covid. That coincides with a cooling in other labor market indicators, including job openings and initial jobless claims, and is adding risk to the full employment part of

the Fed's dual mandate, as the unemployment rate is now above the FOMC's view of the long-run unemployment of 4.2%. Powell still described the June rate of 4.1% as "low", but the trend is now from a tight labour market to one that has more slack than is likely needed to achieve the 2% inflation target.

- The bulk of hiring was accounted for by the private sector (97K), but that still featured job losses in many industries including information, financial activities, and business services. The household survey showed a more muted 67K increase in employment, amidst a sharp rise in the prime-age (25-54 years) participation rate, which jumped to 84.0%, a level not seen since 2001.
- The pace of hiring is well below the estimated short-run breakeven pace of employment growth of roughly 230K, given stronger population growth from immigration. The U-6 unemployment rate, a broader measure of unemployment that includes those marginally attached to the workforce and those working part-time for economic reasons rose by four ticks to 7.8%.
- Aggregate hours worked fell by 0.3%, with goods sectors down by 0.8%, a bad sign for GDP to start the third quarter given that goods-producing sectors have higher productivity. The drop in aggregate hours in the context of a deceleration in wages also implies no labor income growth during the month.

Implications & actions

Re: Economic forecast — The balance of risks for a dual mandate central bank is now shifting towards too few jobs, rather than too much inflation. While Powell has discounted the validity of the Sahm Rule, today's rise in the unemployment rate would be consistent with what in the past has represented the start of a recession. We'll likely nudge our Q3 growth forecast down somewhat, although for 2024 as a whole, the upside surprise in Q2 will be an offset.

Re: Markets — Bond yields fell and the market is now pricing in over 100bps of easing and thus a chance of a 50bps cut at one of the next three FOMC meetings. The euro and yen both gained ground against the greenback, but the C$ wasn't a winner there. The Canadian economy is viewed as more closely tied to the US economy than the others, and we've also seen a significant softening in oil prices in the wake of a few days of weak US economic reports.

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