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August 7, 2026

US Non-farm payrolls (July): Where are the jobs, and the workers?

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Employment change (thousands, unless otherwise noted)	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026
Unemployment rate (%)	4.1	4.2	4.3	4.3	4.3
Avg. hrly earn all (Monthly % Chg)	0.1%	0.3%	0.2%	0.2%	0.2%
Avg. wkly hour all (Monthly % Chg)	0.1%	0.3%	0.2%	0.5%	-0.1%
Nonfarm employment	-23.0	20.0	63.0	148.0	214.0
Total private	30.0	30.0	61.0	150.0	202.0
Goods-producing	25.0	14.0	3.0	6.0	33.0
Construction	22.0	5.0	2.0	3.0	15.0
Manufacturing	5.0	11.0	-2.0	-1.0	15.0
Priv. Serv providing	5.0	16.0	58.0	144.0	169.0
Wholesale trade	4.7	3.3	2.5	0.6	-1.7
Retail trade	-19.4	-3.7	5.0	23.5	9.6
Transp. & Warehousing	9.7	-11.4	0.8	39.4	25.1
Information	11.0	-13.0	-5.0	-6.0	1.0
Financial	-14.0	-2.0	-20.0	-6.0	-17.0
Business services	18.0	34.0	6.0	20.0	28.0
Temporary help	3.4	11.0	0.2	10.5	8.0
Education, health	25.0	54.0	24.0	67.0	95.0
Leisure, hospitality	-40.0	-43.0	42.0	-7.0	44.0
Government	-53.0	-10.0	2.0	-2.0	12.0
Federal Government	-3.0	1.0	4.0	-1.0	-7.0

Source: Haver Analytics

- In a bit of a head scratcher of a US employment report, there were fewer jobs in July, but also fewer workers, sending an already-low unemployment rate even lower. The downtick to a 4.1% jobless rate came despite an 87K drop in household survey employment, being more than offset by a steep 264K decline in the size of the available workforce. The population is still growing, but the share of Americans participating in the labor market by working or looking for a job continued to decline, having already seen a notable weakening in the prior month. That left the participation rate at 61.4%, down from 62.2% a year ago.
- We expect to see some erosion in labor force participation due to population aging, and part of the trend has shown up in those 65 and over as more of them edge further above typical retirement ages. Perhaps strong portfolio gains are allowing some Americans to bring forward their retirement plans. But participation has also declined for younger cohorts over the past year, and the steepness of the recent drop has been unexpected. It doesn't appear to be

coming from discouraged jobless seekers who have given up looking, as even measures of unemployment that include such people have been dropping.

- Payrolls data showed an even greater disappointment, with employment dropping by 23K against expectations for an 80K gain, and a combined 103K downward revision to net hiring over the prior two months. If there was a bright spot, it was that private sector net hiring was still positive, with a modest 30K gain. The weakness in July showed up in government, leisure/hospitality and retailing. The few areas of modest strength included construction, private education/health services, and professional services.
- Despite the tight labour market, wage inflation doesn't look threatening to the Fed's inflation targets. Average hourly earnings came in two ticks below consensus with only a 0.1% rise, reflecting softness in service sector wages. That nudged the 12-month rate down a tick to 3.2%, but over the last three months, wage rates have been climbing at only a 2.5% annualized pace. Yesterday's unit labour cost data also looked tame, up only 1.4% in the past year for non-farm businesses as of Q2.

Implications & actions

Re: Economic forecast — We don't read too much into any one monthly report, but today's payrolls data were helpful to our current forecast for the Fed to stay on hold over the balance of the year. That call will be more dependant on the inflation data than on these job counts, particularly since the Fed is still very much meeting its full employment objective, and offside on its inflation target. But the job figures hinted at some underlying fragility in economic momentum, or at least at some slippage in growth for consumer spending power, and the softer wage figures are good news for a central bank watching for signs of a broadening wage-price spiral.

Re: Markets — Treasury yields decline after the release, as markets downgraded their rate hike expectations. That also fed into a weaker US dollar against other major currencies, but helped the equity market rally.

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