



# Losing Steam with Nowhere Left to Hide

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## Even Weaker than Lowered Expectations

- ▲ Nonfarm payrolls rose just 22,000 in August, with downward revisions subtracting 21,000 from prior months. Job growth has averaged only 29,000 over the past three months.
- ▲ We warned that August tends to be a rogue, with initial estimates often inexplicably weak and typically revised higher.
- ▲ The unemployment rate rose to 4.3%, the highest since late 2021. Long-term unemployment is unusually elevated.
- ▲ Health care (+31K) and social assistance (+16K) again led job creation, offset by declines in federal employment (-15K), manufacturing (-12K), and mining (-6K). Within manufacturing, transportation equipment was held back by strikes (-15K).
- ▲ Household measures remain soft: labor force participation stayed at 62.3%, the employment-population ratio held at 59.6%, and new entrants to the labor force fell.
- ▲ Average hourly earnings rose 0.3%, while the workweek was steady at 34.2 hours.
- ▲ ***We continue to estimate payrolls are overstated by roughly 30,000 per month, meaning actual job growth since April may be near zero. Benchmark QCEW data, due September 9, will clarify the true trajectory heading into the tariff storm.***

## The Labor Market Is Losing Steam

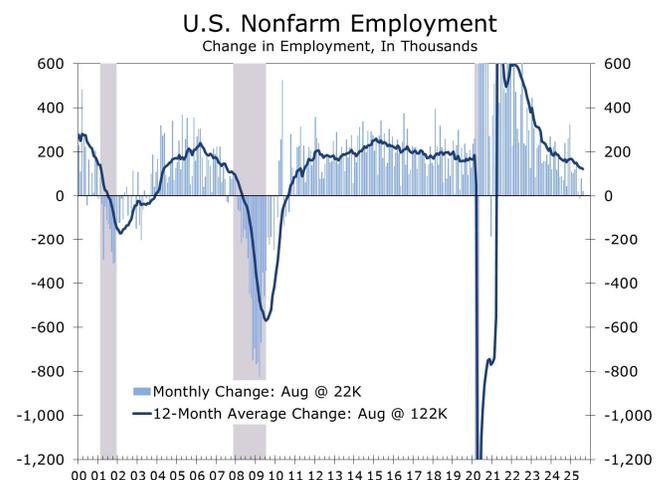
August employment data underscored a slowing labor market. Nonfarm payrolls rose by just 22,000, and revisions to June and July reduced prior gains by 21,000. Over the past three months, job growth has

averaged only 29,000—well below the replacement rate needed to keep up with labor force growth.

August is notoriously difficult to forecast. It coincides with the start of the school year, but the timing of when universities and public school systems report hiring varies year-to-year. It is also the peak of vacation season, which reduces the survey response rate. These quirks often depress the initial estimate, which is typically revised higher in subsequent months. That is why we had anticipated a below-consensus gain of 60,000 jobs, even before the data confirmed far weaker growth.

***August's first print is often notoriously weak. Revisions almost always boost the initial report.***

Hiring continues to be narrowly concentrated. Health care added 31,000 jobs and social assistance added 16,000. Leisure and hospitality also posted a larger gain, adding 28,000 jobs in August. That game is a bit ephemeral, however, as weaker hiring earlier this summer meant there were fewer than usual seasonal separations.



Source: Bureau of Labor Statistics (BLS)



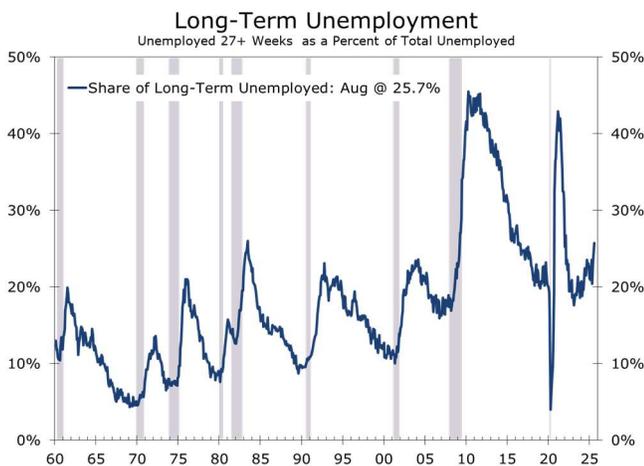
Several sectors posted outright job losses in August, including federal government (-15,000), manufacturing (-12,000), wholesale trade (-12,000), temporary help (-12,000) and mining (-6,000). Within manufacturing, transportation equipment lost 15,000 jobs, reflecting a strike at a major defense contractor. Private sector hiring outside care-related industries remains flat.

The unemployment rate ticked up to 4.3%, the highest since December 2021. Labor force participation rose 0.1 point to 62.3% but remains in its recent range and is down 0.4 percentage points from a year ago. The employment-population ratio held at 59.6% and has drifted lower since last summer.

### ***Long-term unemployed make up more than 1 in 4 jobless workers—a high ratio outside recession***

Long-term unemployment rose to 1.9 million, over a quarter of the jobless—an unusually high share outside recessions. Job openings are at their lowest since before the pandemic, while new labor force entrants fell nearly 200,000 in August.

Tighter immigration enforcement is compounding these pressures. Slower inflows of workers are constraining labor force growth, making the unemployment rate appear lower than underlying slack justify. Meanwhile, the number of people not in the labor force but wanting a job rose to 6.4 million, up more than 700,000 over the past year.



Source: Bureau of Labor Statistics (BLS)

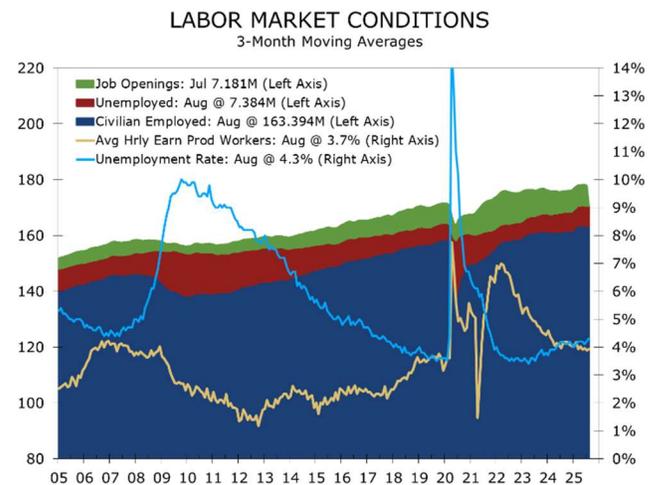
White-collar employment remains soft. Tech-related jobs hiring also rebounded slightly in technology services, adding 2,700 jobs in August. Tech hiring has been sluggish amidst rollout and continuous improvement of various AI platforms.

### **FOMC Outlook: The Clock Is Ticking**

The Fed now has multiple months showing a labor market that is clearly losing momentum. Average hourly earnings are up just 3.7% from a year ago, and participation has stalled. **The risks of overheating have receded; stagnation is now the larger concern.**

Chair Powell has argued the labor market is “in balance,” but the balance appears increasingly fragile, maintained by weakness on both supply and demand sides. Further softness in consumer demand, renewed geopolitical risks, or a cooling housing market could tip that balance quickly.

With unemployment edging higher, payroll growth near zero, and immigration tightening supply, the case for a September rate cut is strong. Waiting risks losing control of the narrative—and letting stagnation slip into contraction. The financial markets have fully priced in a second cut in October, which we believe the Fed will push back on in order to prevent an uptick in the 10-Year Treasury yield and mortgage rates.



Source: Bureau of Labor Statistics (BLS)

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