

U.S. Economic Comment

- The labor market: disappointing payroll growth sets the stage for rate cuts by the Fed
- Wages: decelerating growth amid hiring slowdown
- The household survey: part-time positions surged and unemployment ticked higher

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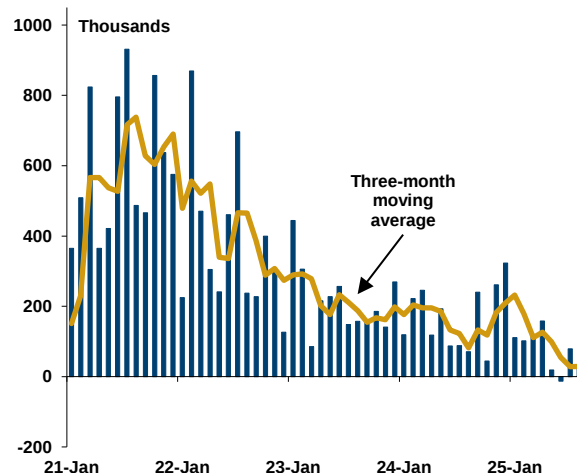
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August Employment

Paltry payroll growth of 22,000 in August fell well shy of the Bloomberg survey median expectation of 75,000, with downward revisions of 21,000 in the prior two months further contributing to the soft tilt of the latest data. Total nonfarm payroll growth has now averaged approximately 29,000 in the last three months, down from 99,000 in the three-month period ended May and well below average monthly growth of 168,000 in 2024 (chart). The latest results ratify the tonal shift by Fed Chair Powell at Jackson Hole suggesting a pivot away from mildly restrictive monetary policy could be warranted and lend credence to dissents by Governors Waller and Bowman at the July FOMC meeting in favor of lower rates. Indeed, policymakers may now find themselves behind the curve in supporting a labor market where, in the words of Governor Waller in a recent speech, “risks are continuing to build.”

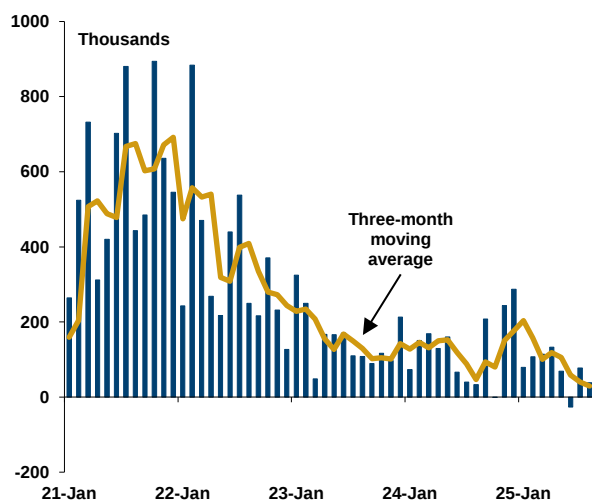
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

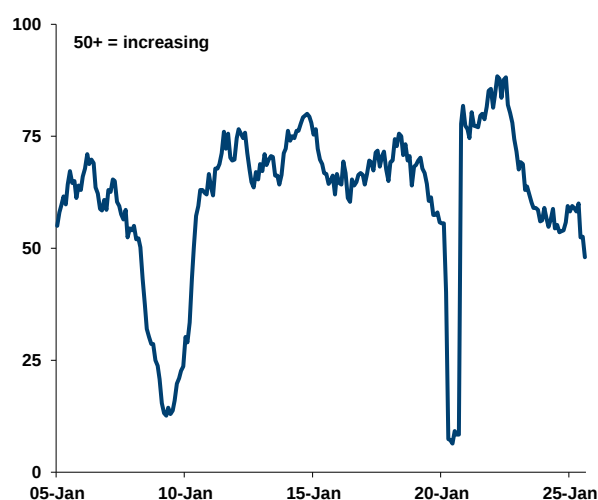
Those risks were particularly evident in the private sector, where average job growth in the June-to-August period was a miniscule 29,000 per month (inclusive of a 38,000 gain in August and decline of 27,000 in June) versus a solid 100,000 average in Q1 and firm 177,000 average performance in 2024-Q4 (chart, below left). Moreover, to better illustrate the broad-based nature of the slowdown in hiring, the private-sector payroll diffusion index is included below (right). The measure, which covers 258 private-sector industries, indicates that more industries are hiring versus

Change in Total Private Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Diffusion Index: Employees on Private Payrolls*



* Over a six-month span; Percent of industries with increasing employment plus one-half of the industries with unchanged employment, where a reading of 50 percent indicates an equal balance between industries with increasing and decreasing employment.

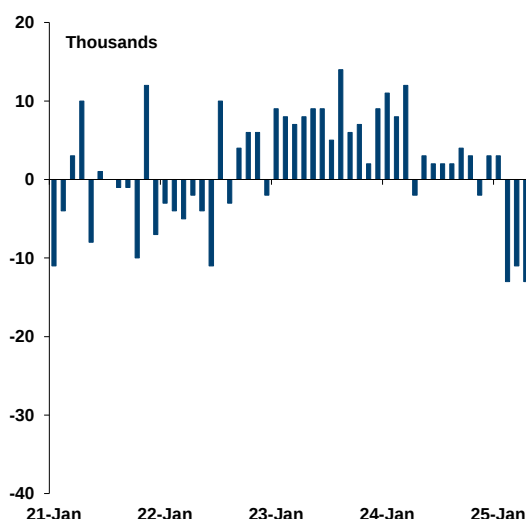
Source: Bureau of Labor Statistics via Haver Analytics

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reducing headcounts when it is above 50.0. The six-month average iteration, which smooths volatility inherent in the month-to-month gauge, had previously eased from the recent high of 88.4 in March 2022, when restrictive monetary policy acted to constrain an overheated labor market, but steadied in late 2023 and remained consistent with longer-term norms before slowing more recently and falling to 48.0 in August – the first sub-50 reading on a six-month basis since the fall of 2020. Thus, concern is warranted amid the broadening deceleration.

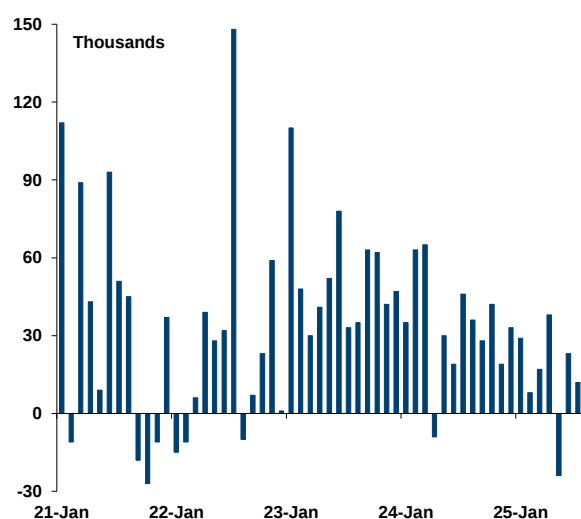
The public sector also was not spared from the sharp slowdown, as evidenced by the charts below. The federal government shed 15,000 positions in August, the seventh consecutive month of cuts, while state and local governments, combined, cut 1,000. The federal government, in particular, may act as an ongoing constraint on job growth in light of the Trump administration's stated aim to reduce headcounts across federal agencies via the Department of Government Efficiency (DOGE). Additionally, many federal employees accepted severance packages pending termination during an initial burst of cuts (still counted as employed), and these former employees will continue to fall off job rolls in the months ahead. The government has not provided a specific headcount regarding those pending terminations, but various news sources still put the number in excess of 100,000.

Change in Federal Government Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Change in State & Local Government Payrolls

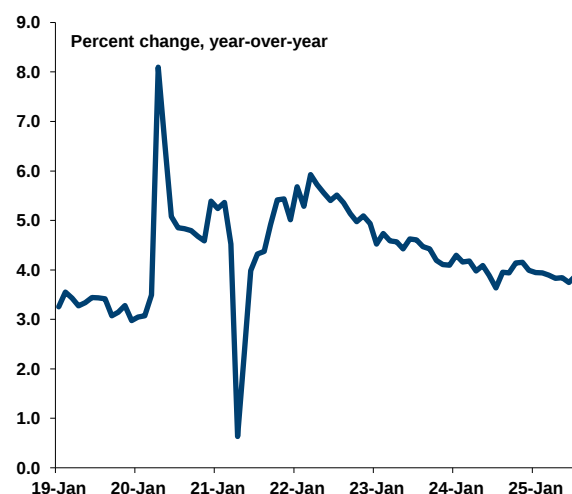


Source: Bureau of Labor Statistics via Haver Analytics

Slowing in Wage Growth Underscores Softening Job Market

Brisk wage growth, previously a threat to the Federal Reserve's inflation mandate, has cooled substantially since the recent peak of 5.9 percent in March 2022, but that progress stalled in the back half of 2024. Currently, the trend appears to have resumed its downward tilt, with a monthly gain of 0.27 percent in earnings equating to year-over-year growth of 3.7 percent (versus 3.9 percent in the prior month; chart). In a sense, the ongoing easing is a welcome development, as slower wage growth will have knock-on effects to service sector inflation – with the former providing further evidence that currently above-target inflation should slow after a period of pressure from tariffs. However, should the labor market deteriorate further, wage growth runs the risk of merely matching, or falling below, the pace of inflation – a potential development that could erode purchasing power and further contribute to a possible economic slowdown.

Average Hourly Earnings

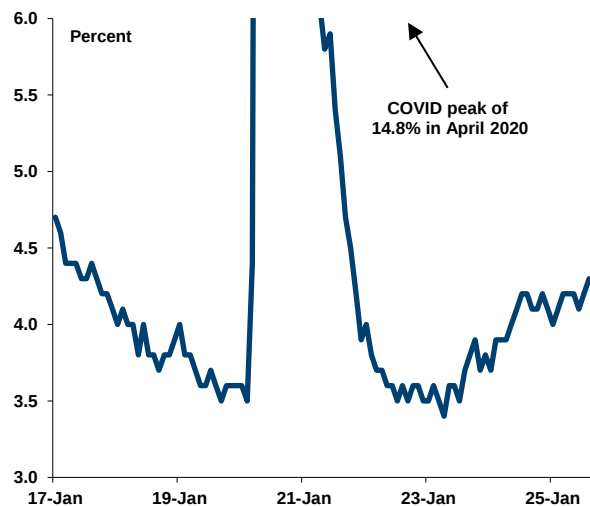


Source: Bureau of Labor Statistics via Haver Analytics

The Household Data

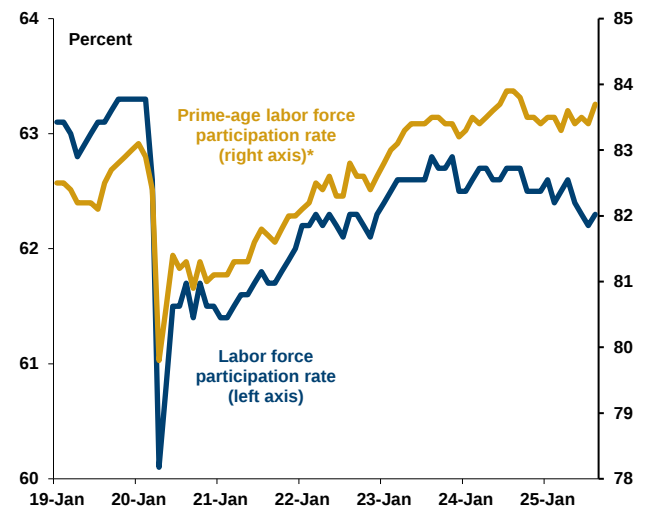
If we were to put a positive spin on the data from the household survey, we could note that the increase in the unemployment rate was driven by a jump of 436,000 in the labor force after three months of contraction that outpaced a decent gain in employment (288,000; chart on the unemployment rate, below left). Moreover, we could emphasize that many of the new entrants into the labor force were prime-age workers (the participation rate for this group rose 0.3 percentage point to 83.7 percent, a reading in the upper end of the recent range), and that the pickup offset the ongoing retirement of Baby Boomers and contributed to stability in the overall labor force (chart, below right). However, under the current circumstances, that approach may not be the correct one.

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Rate



* Labor force participants aged 25 to 54 as a share of the civilian non-institutional population aged 25 to 54.

Source: Bureau of Labor Statistics via Haver Analytics

After factoring in a drop of 260,000 in employment in July, the measure is up only marginally in the past two months combined. Furthermore, the latest gain reflected a drop of 357,000 in full-time positions that was offset by a surge of 597,000 in part-time jobs. Over the past two months, part-time jobs have risen a substantial 844,000 and full-time roles have dropped 797,000 – a development suggestive of firms scaling back staffing resources in anticipation of a slowing in the economy. Beyond the composition of jobs and its implications, we also note that the unemployment rate could well be poised to move higher. We currently peg the break-even rate for payrolls (i.e., job growth required to keep unemployment steady) in the 70,000-80,000 range. Absent stark improvement in labor market conditions into the fall, the unemployment rate could test 4.5 percent, or possibly higher, by year-end.

Preliminary Benchmark Revisions to Establishment Survey Data

We will receive further detail on the state of the labor market next week (September 9), when the Bureau of Labor Statistics publishes preliminary benchmark revision data for the establishment survey. Every year, Current Employment Statistics estimates are benchmarked against counts from the Quarterly Census of Employment and Wages, with new estimates through the first quarter of 2025 released. In the aforementioned speech by Governor Waller, the policymaker indicated that he anticipated the revisions to be to the downside – possibly revealing monthly job creation of 60,000 less than previously anticipated over the recent survey period. Should that scenario be realized, it could force a rethink on our part with respect to the health of the economy.

The Week Ahead

PPI (August) (Wednesday)

Forecast: +0.3% Total, +0.3% Ex. Food & Energy

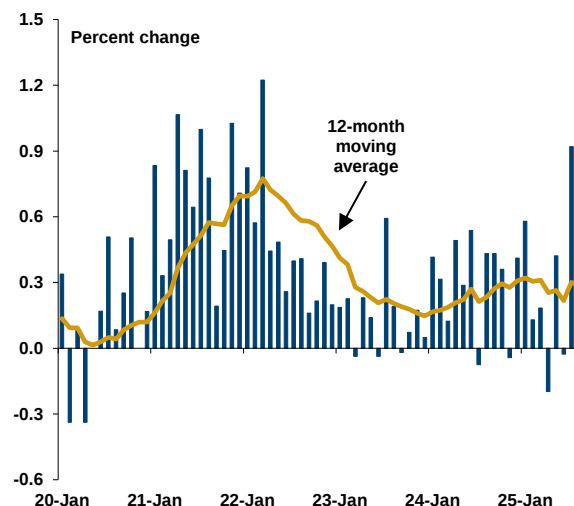
Following advances of 0.9 percent in the prior two months, available data suggests that wholesale energy prices could rise again in August. Food prices at the producer level, which have been a bit choppy in recent months, could post a reading close to the trailing 12-month average of 0.35 percent. Goods prices excluding food and energy have advanced 0.2 percent on average over the past 12 months, a touch slower than the 0.3 percent average gain for the broad service category. Construction costs remain on a subdued upward trend, rising 0.1 percent on average in the 12-month period ending July 2025.

CPI (August) (Thursday)

Forecast: +0.3% Headline, +0.3% Core

Available quotes suggest that the energy component could rise in August. The food component, meanwhile, seems poised to remain on its modest upward trend (average monthly increase of 0.2 percent in the past 12 months). Core goods prices, which had previously been a source of disinflation earlier in the episode, could show further upward pressure in the latest month, as pass-through from tariff-related costs has started to show up in consumer inflation data. Led by ongoing deceleration in housing-related components, the overall trend for core service inflation indicates ongoing moderation (+3.6 percent year-over-year in July versus +4.9 percent in the same month last year). Core services excluding housing (i.e., “supercore” inflation) could register an increase closer to the trailing six-month average of 0.2 percent as hesitant spending in discretionary areas has put pressure on travel-related areas (e.g., airfares and hotel stays).

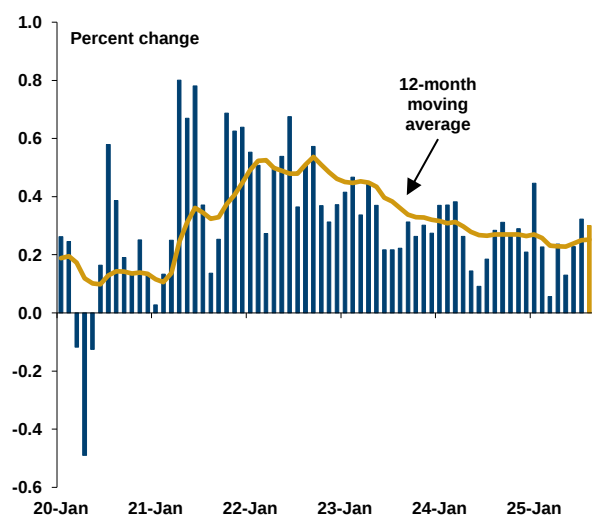
PPI Ex. Food & Energy*



* The gold bar is a forecast for August 2025.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

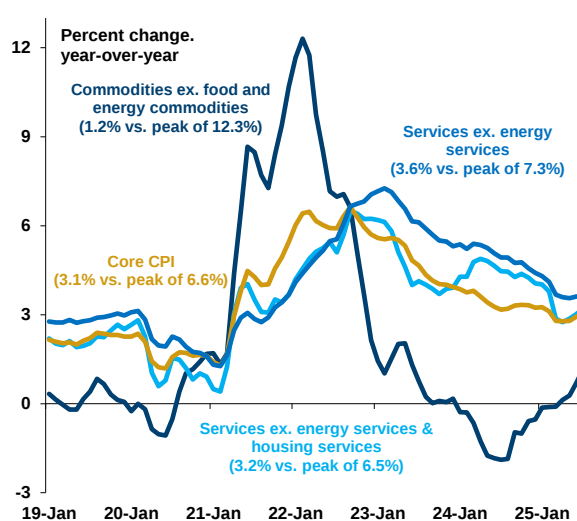
Core CPI*



* The gold bar is a forecast for August 2025.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget (August) (Thursday)

Forecast: -\$290 Billion

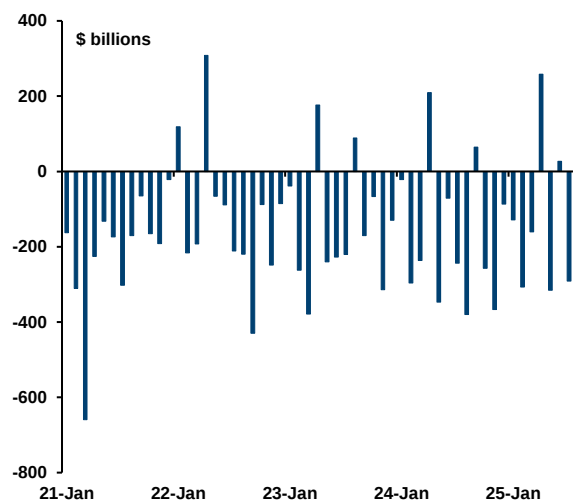
Available data from the Daily Treasury Statement indicate that federal revenue growth was solid last month (up about 11 percent year-over-year by our estimate), but outlay growth remained on a firm trajectory as well. If the deficit projection for August 2025 is realized, the cumulative shortfall in the first eleven months of FY2025 will total approximately \$1.9 trillion, more-or-less equal to the deficit in the same period of FY2024.

Consumer Sentiment (September) (Friday)

Forecast: 58.0 (-0.2 Index Pt. or -0.3%)

Given slowing in the labor market and the prospect of higher prices on account of the Trump administration's tariff program, consumer sentiment appears poised to remain depressed in September. Following a bit of stirring in August, updated readings on inflation expectations will also garner interest. Year-ahead expectations rose 0.3 percentage point to 4.8 percent in the prior month while the long-term measure increased 0.1 percentage point to 3.5 percent. While both observations are off their recent highs of 6.6 and 4.4 percent, respectively, they are still elevated compared to readings at the beginning of the year.

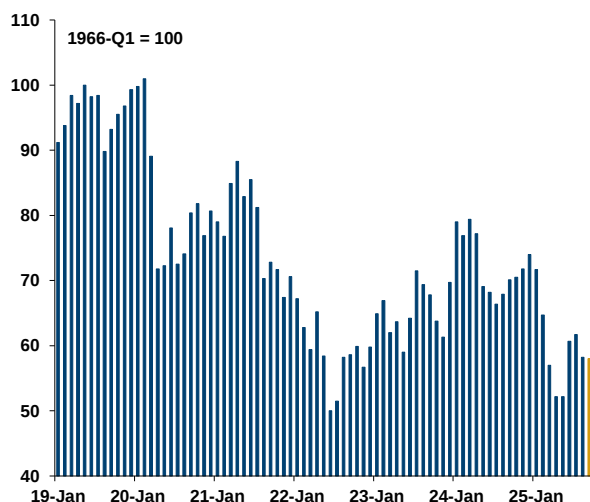
Federal Budget Surplus/Deficit*



* The gold bar is a forecast for August 2025.

Sources: U.S. Treasury via Haver Analytics; Daiwa Capital Markets America

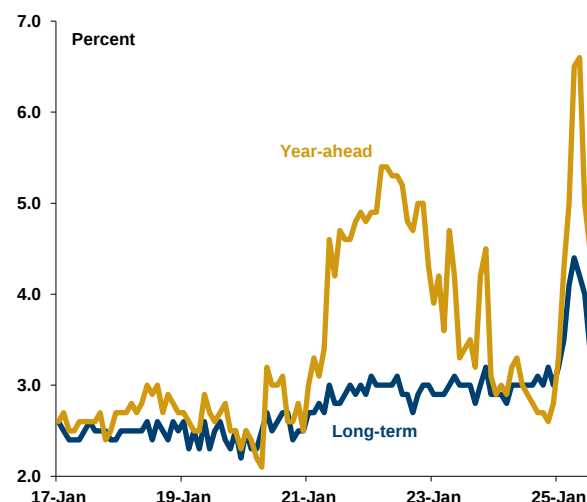
Consumer Sentiment*



* The gold bar is a forecast for September 2025.

Sources: University of Michigan via Haver Analytics; Daiwa Capital Markets America

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Economic Indicators

September 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
LABOR DAY	ISM MFG. INDEX Index Prices June 49.0 69.7 July 48.0 64.8 Aug 48.7 63.7 CONSTRUCTION May -0.2% June -0.4% July -0.1%	FACTORY ORDERS May 8.3% June -4.8% July -1.3% JOLTS DATA Openings (000) Quit Rate May 7,712 2.0% June 7,357 2.0% July 7,181 2.0% BEIGE BOOK August 2025: "Most of the twelve Federal Reserve Districts reported little or no change in economic activity since the prior Beige Book period—the four Districts that differed reported modest growth." VEHICLE SALES June 15.3 million July 16.5 million Aug 16.1 million	ADP EMPLOYMENT Private Payrolls June -23,000 July 106,000 Aug 54,000 UNEMPLOYMENT CLAIMS Initial Continuing (millions) Aug 9 0.224 1.961 Aug 16 0.234 1.944 Aug 23 0.229 1.940 Aug 30 0.237 N/A TRADE BALANCE May -\$71.1 billion June -\$59.1 billion July -\$78.3 billion PRODUCTIVITY & COSTS Unit Labor Productivity Costs 25-Q1 -1.8% 6.9% 25-Q2(p) 2.4% 1.6% 25-Q2(r) 3.3% 1.0% ISM SERVICES INDEX Index Prices June 50.8 67.5 July 50.1 69.9 Aug 52.0 69.2	EMPLOYMENT REPORT Payrolls Un. Rate June -13,000 4.1% July 79,000 4.2% Aug 22,000 4.3%
8	9	10	11	12
CONSUMER CREDIT (3:00) May \$5.1 billion June \$7.4 billion July --	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) June 98.6 July 100.3 Aug --	PPI (8:30) Ex. Food Final Demand & Energy June 0.0% 0.0% July 0.9% 0.9% Aug 0.3% 0.3% WHOLESALE TRADE (10:00) Inventories Sales May -0.3% -0.4% June 0.1% 0.3% July 0.2% 0.0%	UNEMP. CLAIMS (8:30) CPI (8:30) Total Core June 0.3% 0.2% July 0.2% 0.3% Aug 0s.3% 0.3% FEDERAL BUDGET (2:00) FY2025 FY2024 June \$27.0B -\$71.0B July -\$291.1B -\$243.7B Aug -\$290.0B -\$380.1B	CONSUMER SENTIMENT (10:00) July 61.7 Aug 58.2 Sep 58.0
15	16	17	18	19
EMPIRE MFG	RETAIL SALES IMPORT/EXPORT PRICES IP & CAP-U NAHB HOUSING INDEX BUSINESS INVENTORIES FOMC MEETING (FIRST DAY)	HOUSING STARTS FOMC RATE DECISION	UNEMP. CLAIMS PHILLY FED INDEX LEADING INDICATORS TIC FLOWS	
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX	CURRENT ACCOUNT EXISTING HOME SALES	NEW HOME SALES	UNEMP. CLAIMS REVISED Q2 GDP DURABLE GOODS ORDERS INTERNATIONAL TRADE IN GOODS ADVANCE INVENTORIES	PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX REVISED CONSUMER SENTIMENT

Forecasts in bold. (p) = preliminary, (r) = revised

Treasury Financing

September 2025																																		
Monday	Tuesday	Wednesday	Thursday	Friday																														
1	2	3	4	5																														
LABOR DAY	AUCTION RESULTS:<table><tr><td></td><td>Rate</td><td>Cover</td></tr><tr><td>13-week bills</td><td>4.045%</td><td>2.96</td></tr><tr><td>26-week bills</td><td>3.880%</td><td>2.70</td></tr><tr><td>6-week bills</td><td>4.190%</td><td>2.64</td></tr><tr><td>52-week bills</td><td>3.660%</td><td>3.82</td></tr></table> ANNOUNCE: \$65 billion 17-week bills for auction on Sep 3 \$100 billion 4-week bills for auction on Sep 4 \$85 billion 8-week bills for auction on Sep 4 SETTLE: \$65 billion 17-week bills \$100 billion 4-week bills \$85 billion 8-week bills \$16 billion 20-year bonds \$69 billion 2-year notes \$70 billion 5-year notes \$44 billion 7-year notes		Rate	Cover	13-week bills	4.045%	2.96	26-week bills	3.880%	2.70	6-week bills	4.190%	2.64	52-week bills	3.660%	3.82	AUCTION RESULTS:<table><tr><td></td><td>Rate</td><td>Cover</td></tr><tr><td>17-week bills</td><td>3.965%</td><td>3.34</td></tr></table>		Rate	Cover	17-week bills	3.965%	3.34	AUCTION RESULTS:<table><tr><td></td><td>Rate</td><td>Cover</td></tr><tr><td>4-week bills</td><td>4.175%</td><td>2.78</td></tr><tr><td>8-week bills</td><td>4.100%</td><td>2.79</td></tr></table> ANNOUNCE: \$155 billion 13-,26-week bills for auction on Sep 8 \$85 billion 6-week bills for auction on Sep 9 \$58 billion 3-year notes for auction on Sep 9 \$39 billion 10-year notes for auction on Sep 10 \$22 billion 30-year bonds for auction on Sep 11 SETTLE: \$155 billion 13-,26-week bills \$85 billion 6-week bills \$50 billion 52-week bills		Rate	Cover	4-week bills	4.175%	2.78	8-week bills	4.100%	2.79	
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*Estimate