

U.S. Economic Comment

- June labor market data: unimpressive after previous hints of firming, with the latest results perhaps easing fears of a Fed pivot to rate hikes

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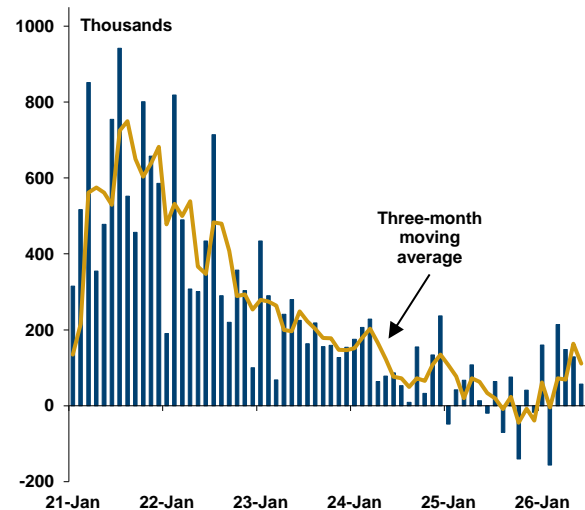
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June Employment

Following the ECB Forum on Central Banking this week in Sintra, Portugal, the Employment Situation report for June was the final, and among the more important, U.S. market events in a holiday-shortened week. A panel discussion (and highlight of the ECB event) joined by Fed Chairman Kevin Warsh and global central banking colleagues provided a forum for other policymakers to join the Fed Chair in signaling a reassessment of the utility of forward guidance while also collectively avoiding any hints on the respective paths of monetary policy; in fact, Mr. Warsh indicated emphatically, “I’m not going to give you any prediction as to what we will do.” With that said, the Fed Chairman appeared to soften somewhat his recent assessment of the trajectory of prices – now apparently the dominant consideration among dual-mandate objectives – noting that “inflation risks have come down,” which absent additional clues appeared to be interpreted by market participants as lowering the risk of a hike at least at the July FOMC meeting. The latter development (release of the employment data) – although apparently the less important variable in the calculus of the new Chairman – also carried a softer tone than other recent releases, suggesting only limited prospects for a transition in the labor market from the recently observed low-hire/low-fire equilibrium.

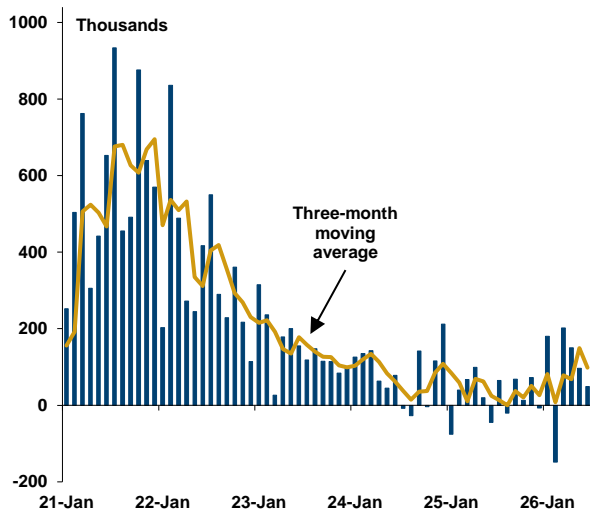
Turning first to the payroll results, job growth in June of 57k was well shy of the Bloomberg survey median expectation of 113k, as was private-sector growth of 49k versus 107k projected. Additionally, results in the prior two months were revised lower by a combined 74k, with the trailing three-month average of 164k favorable but somewhat less so than the previously reported brisk pace of 188k (chart, right). Further, the adjustment to prior data, in our view, shifts the recent discussion about labor market conditions: rather than witnessing a sustainable upswing in hiring, growth in the spring may have reflected a snap-back effect after weather-related disruptions in the winter (recall March hiring printed at 214k after a drop of 156k in Feb). Moreover, downward revisions in the private sector (two-month revision of -50k; trailing three-month average of 150k versus a pre-revised average of 166k; chart, next page, left) were concentrated in construction (where data on building and home sales have recently softened appreciably) and leisure & hospitality (which is supported significantly by discretionary household spending). In the latest month, healthcare and social assistance (an acyclical sector) was again a key driver of private-sector job growth (+47k; trailing three-month average of 65k). Hiring in the leisure and hospitality area, contrastingly, fell by 61k (which also indicates no material gain in hiring tied to the World Cup – which has been expected by some analysts; chart, next page, right; note the deviation from the recent average of 26k), and shifts in other sectors (for the most part) were fairly modest – including pickups in manufacturing (+3k) after back-to-back declines and construction (+11k). Thus, hiring lacked vigor after previously showing signs of turning higher, consistent with what have observed as recent deceleration in underlying economic momentum.

Change in Nonfarm Payrolls



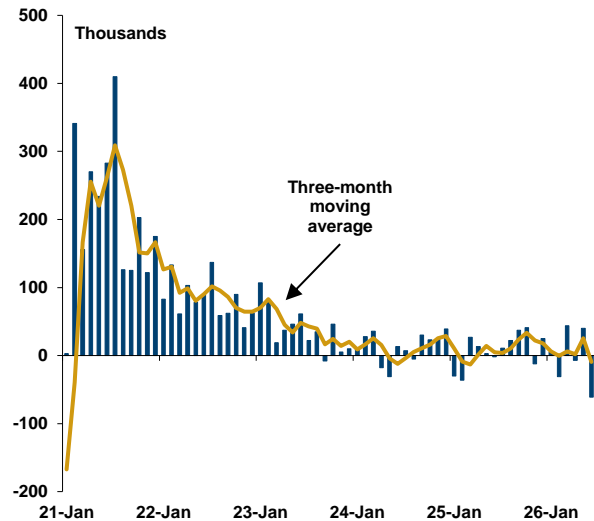
Source: Bureau of Labor Statistics via Haver Analytics

Change in Private Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

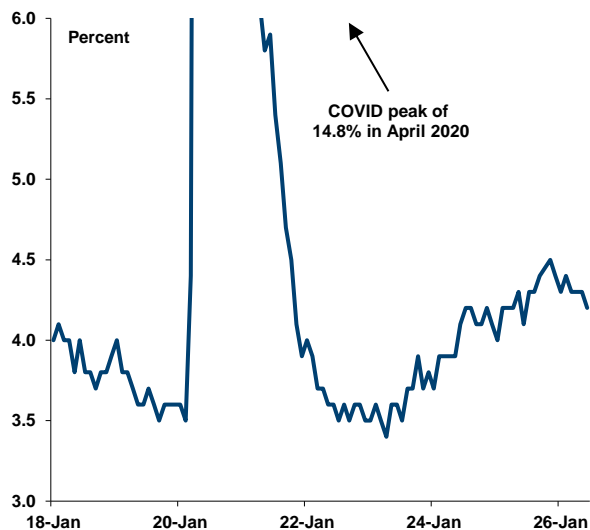
Change in Leisure & Hospitality Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

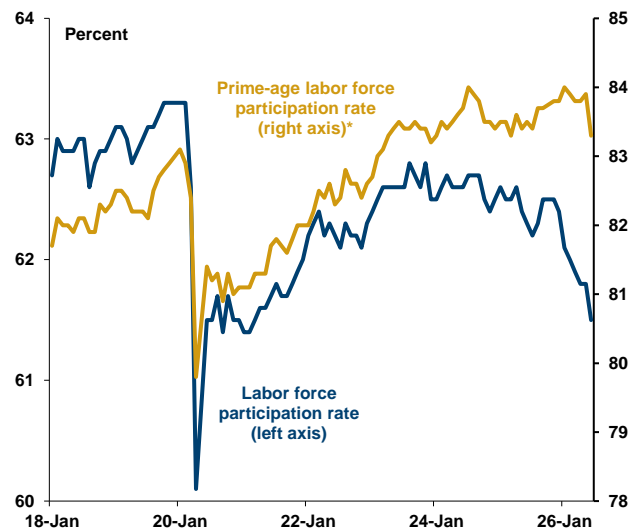
Results for the household survey ratified those from the payroll data. The unemployment rate eased by 0.1 percentage point to 4.2 percent (4.189 percent versus 4.296 percent, with less rounding; chart, below left), but the change was driven mostly by supply-side shifts as the labor force fell by 720k. (Unemployment also declined by 213k, but so did those reported as employed, which dropped 507k.). A notable portion of the drop in the labor force occurred among prime-age workers. The overall labor force participation rate fell by 0.3 percentage point to 61.5 percent, the lowest level since March 2021, pulled down by a plunge of 0.6 percentage point in the prime-age (25-54 years) rate to 83.3 percent – the lowest since March 2025 (chart, below right). Concentration of labor force defections in the prime-age demographic may be random (possible given the inherent volatility in the household survey data), or it could signal a growing disenchantment among a key cross-section of workers (also possible given downbeat labor market assessments in various consumer surveys; chart, next page, left).

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Labor Force Participation Rate



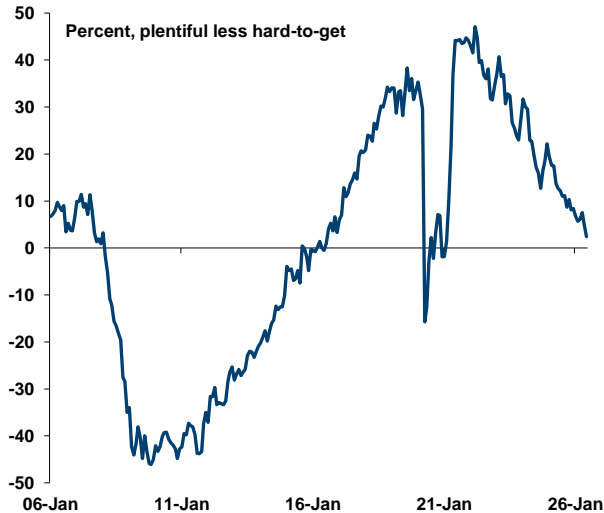
* Labor force participants aged 25 to 54 as a share of the civilian non-institutional population aged 25 to 54.

Source: Bureau of Labor Statistics via Haver Analytics

Even amid the apparent supply-side constraint in June, results on average hourly earnings suggest that the labor market remains in equilibrium and is therefore not generating undesirable wage pressure. Average hourly earnings rose 0.35 percent in the latest month, faster than the trailing six-month average of 0.23 percent, although the latest year-over-year advance of 3.5 percent was well within the recent range – and consistent with achieving 2 percent

inflation over time (chart, below right). (Note, we view wage growth of the inflation target plus trend productivity, which we currently peg in the vicinity of 2 percent, as a reasonable proxy for acceptable wage growth within the context of the price stability mandate, with a 3.5 percent pace below that bar.)

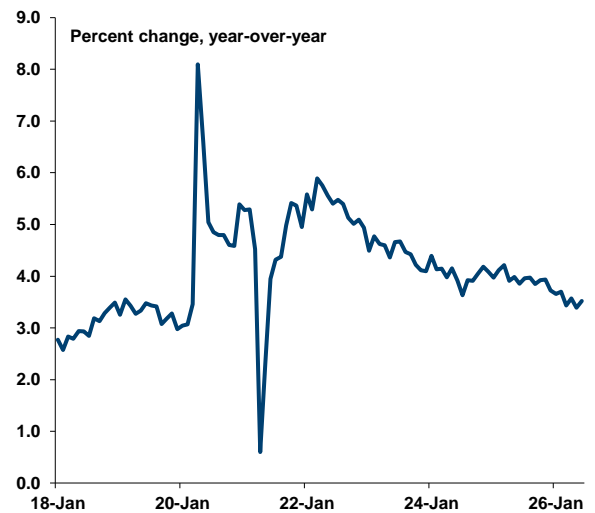
Labor Market Differential*



* The share of respondents in the Consumer Confidence Survey who reported that jobs were "plentiful" less those who said they were "hard-to-get."

Source: The Conference Board via Haver Analytics

Average Hourly Earnings



Source: Bureau of Labor Statistics via Haver Analytics

All told, the assessment on the labor market via June Employment Situation report was somewhat softer than those in other recent months – and results during that period also were revised lower. However, at worst, the labor market has possibly reverted to the previous lackluster steady-state that allowed Fed officials to forgo a policy response as they monitored inflation developments. And, given the new Fed Chair's apparent single-minded focus on price stability, we suspect that the previous status quo on employment leaves the chance of a near-term rate cut at essentially zero (although we still entertain the possibility of one in late 2026 given the Chairman's more favorable assessment of inflation risks whist at the ECB conference).

Note to readers:

The next issue of the U.S. Economic Comment will be published on July 17, 2026.

The Week Ahead

ISM Services Index (June) (Monday)

Forecast: 53.5% (-1.0 percentage point)

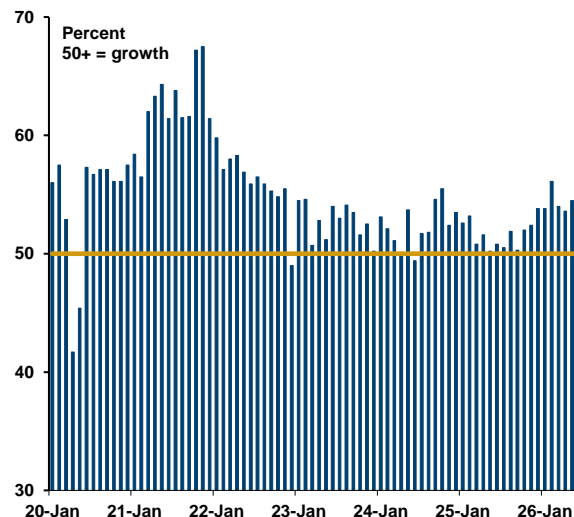
Though some easing is anticipated, the Institute for Supply Management’s services PMI is likely to signal expansion for the 24th consecutive month in June – reflective of ongoing resilience of service-providing firms in the face of persistent headwinds stemming from the Trump administration’s policy pursuits and associated economic uncertainty (first tariffs and most recently the Iran conflict). Following seemingly-outsized increases in the new orders (+3.8 percentage points to 57.3 percent) and business activity (+1.8 percentage points to 57.7 percent) subcomponents, we could envision slight reversions for both in the final month of Q2, raising the prospect of some cooling for the composite measure.

Trade Balance (May) (Tuesday)

Forecast: -\$78.0 billion (\$22.1 billion wider deficit)

The goods deficit widened by \$22.7 billion to \$105.8 billion in May (Census basis; published June 26), reflecting a 3.6-percent jump in imports (+\$10.9 billion) that was paired with a 5.4-percent decline in exports (-\$11.8 billion). Thus, while the services surplus is likely to remain within the recent range, the shift in the goods balance implies similar deterioration for the total trade shortfall. The projected widening, if realized, would leave the average for the first two months of Q2 at -\$66.9 billion (versus -\$55.3 billion in Q1), suggestive of net exports again acting as a notable drag on GDP growth.

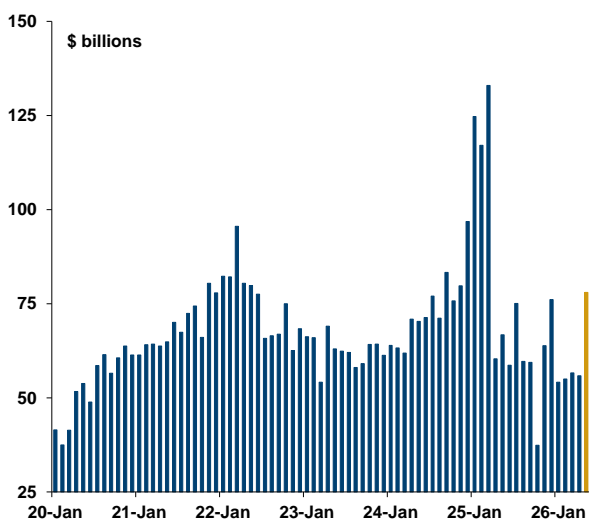
ISM Services Index*



* The gold bar is a forecast for June 2026.

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

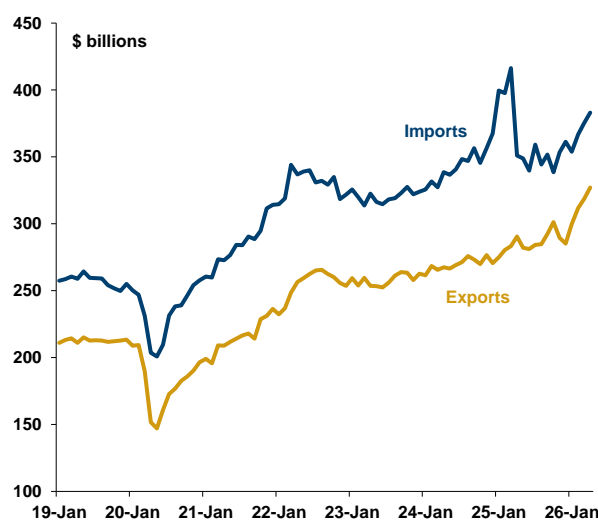
Nominal Trade Deficit in Goods & Services*



* The gold bar is a forecast for May 2026.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Imports & Exports of Goods & Services

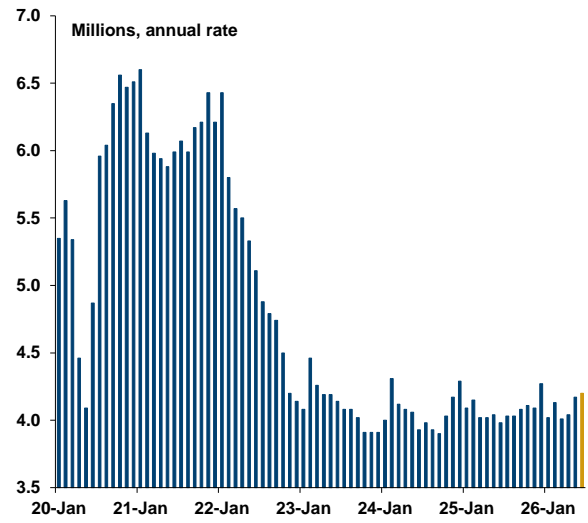


Source: Bureau of Economic Analysis via Haver Analytics

Existing Home Sales (June) (Thursday)
Forecast: 4.20 million (+0.7%)

The recent performance in the index of pending home sales (+0.3 and +3.8 percent in April and May, respectively) is suggestive of a third consecutive advance for existing home sales in June (note that pending home sales, which measures contract signings, typically lead existing home sales, which measures closings, by about one to two months). However, the projected improvement would still leave the pace of activity near the bottom of the longer-run range – reflective of ongoing affordability challenges in this segment of housing market.

Existing Home Sales*



* The gold bar is a forecast for June 2026.

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

June/July 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
29	30	1	2	3
	FHFA HOUSE PRICE INDEX Feb 0.0% Mar 0.2% Apr -0.1% S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX Feb -0.1% Mar -0.2% Apr 0.0% MNI CHICAGO BUSINESS BAROMETER Apr 49.2 May 62.7 June 56.7 CONFERENCE BOARD CONSUMER CONFIDENCE Apr 93.8 May 90.6 June 91.2 JOLTS DATA Openings (000) Quit Rate Mar 6,887 2.0% Apr 7,585 1.9% May 7,594 1.9%	ADP EMPLOYMENT Private Payrolls Apr 105,000 May 122,000 June 98,000 ISM MFG. INDEX Index Prices Apr 52.7 84.6 May 54.0 82.1 June 53.3 73.0 CONSTRUCTION Mar 0.4% Apr 0.3% May 0.1% VEHICLE SALES Apr 16.2 million May 16.1 million June 16.5 million	UNEMPLOYMENT CLAIMS Initial Continuing (millions) June 6 0.230 1.800 June 13 0.227 1.812 June 20 0.216 1.814 June 27 0.215 N/A EMPLOYMENT REPORT Payrolls Un. Rate Apr 148,000 4.3% May 129,000 4.3% June 57,000 4.2% FACTORY ORDERS Mar 1.8% Apr 5.3% May -1.3%	INDEPENDENCE DAY (OBSERVED)
6	7	8	9	10
ISM SERVICES INDEX (10:00) Index Prices Apr 53.6 70.7 May 54.5 71.3 June 53.5 67.0	TRADE BALANCE (8:30) Mar -\$56.6 billion Apr -\$55.9 billion May -\$78.0 billion	WHOLESALE TRADE (10:00) Inventories Sales Mar 1.5% 3.0% Apr 0.7% 2.0% May 0.3% 2.5% FOMC MINUTES (2:00) CONSUMER CREDIT (3:00) Mar \$22.2 billion Apr \$20.7 billion May --	UNEMP. CLAIMS (8:30) EXISTING HOME SALES (10:00) Apr 4.040 million May 4.170 million June 4.200 million	
13	14	15	16	17
FEDERAL BUDGET	NFIB SMALL BUSINESS OPTIMISM INDEX CPI TIC FLOWS	PPI EMPIRE MFG BEIGE BOOK	UNEMP. CLAIMS RETAIL SALES PHILLY FED INDEX PENDING HOME SALES NAHB HOUSING INDEX BUSINESS INVENTORIES	HOUSING STARTS IMPORT/EXPORT PRICES IP & CAP-U CONSUMER SENTIMENT
20	21	22	23	24
LEADING INDICATORS			UNEMP. CLAIMS CHICAGO FED NATIONAL ACTIVITY INDEX	NEW HOME SALES

Forecasts in bold.

Treasury Financing

June/July 2026																																		
Monday	Tuesday	Wednesday	Thursday	Friday																														
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<p>AUCTION RESULTS:</p> <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>13-week bills</td> <td>3.740%</td> <td>2.32</td> </tr> <tr> <td>26-week bills</td> <td>3.840%</td> <td>2.58</td> </tr> </tbody> </table>		Rate	Cover	13-week bills	3.740%	2.32	26-week bills	3.840%	2.58	<p>AUCTION RESULTS:</p> <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>6-week bills</td> <td>3.655%</td> <td>2.71</td> </tr> </tbody> </table> <p>ANNOUNCE: \$72 billion 17-week bills for auction on July 1 \$85 billion 4-week bills for auction on July 2 \$85 billion 8-week bills for auction on July 2</p> <p>SETTLE: \$69 billion 17-week bills \$70 billion 4-week bills \$75 billion 8-week bills \$24 billion 5-year TIPS \$69 billion 2-year notes \$70 billion 5-year notes \$44 billion 7-year notes</p>		Rate	Cover	6-week bills	3.655%	2.71	<p>AUCTION RESULTS:</p> <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>17-week bills</td> <td>3.795%</td> <td>2.66</td> </tr> </tbody> </table>		Rate	Cover	17-week bills	3.795%	2.66	<p>AUCTION RESULTS:</p> <table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Cover</th> </tr> </thead> <tbody> <tr> <td>4-week bills</td> <td>3.605%</td> <td>2.72</td> </tr> <tr> <td>8-week bills</td> <td>3.650%</td> <td>2.70</td> </tr> </tbody> </table> <p>ANNOUNCE: \$171 billion 13-,26-week bills for auction on July 6 \$90 billion 6-week bills for auction on July 7 \$52 billion 52-week bills for auction on July 7 \$58 billion 3-year notes for auction on July 7 \$39 billion 10-year notes for auction on July 8 \$22 billion 30-year bonds for auction on July 9</p> <p>SETTLE: \$171 billion 13-,26-week bills \$80 billion 6-week bills</p>		Rate	Cover	4-week bills	3.605%	2.72	8-week bills	3.650%	2.70	<p>INDEPENDENCE DAY (OBSERVED)</p>
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*Estimate