Yardeni Research

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Morning Briefing

On US Labor Market
& Tariffying Vietnam

Check out the accompanying chart collection.

Executive Summary: The labor market has held up well in the face of Trump's Tariff Turmoil, and the financial markets were cheered by June's higher-than-expected payroll employment. But Ed sees more weakness than strength June's employment report. The fact that our Earned Income Proxy derived from the data was flat suggests that June's consumer spending likely weakened too. Nevertheless, consumer spending and employment should improve during the second half of this year as retiring Baby Boomers continue to spend their nest eggs. … Also: Vietnam, the first nation to accept President Trump's tariff terms, is embarking on ambitious economic reforms. William discusses the long to-do list.

Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

US Labor Market I: June Wasn't That Hot. Stock prices rose and bond prices fell following the release of June's employment report on Thursday of last week. Payroll employment rose 147,000, beating expectations (*Fig. 1*). We were expecting an increase of 100,000-125,000. However, private industry payrolls rose only 74,000. That's the weakest increase since October 2004.

There were plenty of other relatively weak numbers. You might be surprised that we are accentuating the negatives of the report since we tend often to accentuate the positives of economic reports. We do so because so many economists have a negative bias when it comes to interpreting the macroeconomic data. We tend to be perma-bulls because there are so many more perma-bears. The latter tend to do such a good job at providing negative spins that we rarely find more to add. So we focus on the positives and frequently find them to be more compelling than the negatives.

This time, we must say that the latest report on balance was a weak one. Nevertheless, we won't disappoint you: We are going to provide a positive spin. We think that the labor market has held up remarkably well in the face of Trump's Tariff Turmoil, which seems to be subsiding (somewhat). As a result, we expect that payroll employment, particularly in the private sector, will strengthen during the second half of this year.

Now let's have a closer look at the latest employment report:

(1) *Weird increase in government employment.* June's 73,000 increase in government payrolls was unusually large. Federal payrolls fell 7,000 last month (*Fig. 2*). State and local government employment rose 80,000, led by a 63,500 increase in education (*Fig. 3*). It's possible that school systems are hiring more teachers during the summer to get them ready for the coming school year starting in August and September. Perhaps more are needed because of an increase in enrollment by the children of migrants.

Since the start of the year through June, government employment is up 322,000, accounting for 41% of the total 782,000 increase in nonfarm payrolls (*Fig. 4*). Federal government employment is down 53,800, or 2.2%, since the start of the year. The DOGE Boys didn't eliminate as many jobs as they probably expected. Meanwhile, state and local government payrolls rose 376,000 so far this year, led by 198,700 in public education.

(2) *Private-sector employment indicators weak.* Exacerbating the weak increase in private payrolls was a slight decline in average weekly hours from 34.3 in May to 34.2 in June (*Fig. 5*). As a result, aggregate weekly hours worked, which was at a record high of 4.7 billion hours during May, fell 0.2% m/m during June (*Fig. 6*). It tends to be a volatile series monthly because the average workweek is a volatile series. We expect both to zig in July after zagging in June.

(3) *Earned Income Proxy (EIP) unchanged.* The 0.2% decline in total hours worked offset the 0.2% increase in average hourly earnings last month (*Fig. 7*). So our Earned Income Proxy for private industry wages and salaries in personal income was flat in nominal terms last month (*Fig. 8*). That suggests the consumer spending indicators, including retail sales, were weak in June (*Fig. 9*).

We know that total light motor vehicle sales fell from May's 15.6 million units (saar) to 15.3 million units during June, well below its recent peak of 17.8mu in March (*Fig. 10*). On the other hand, the Redbook retail sales index rose 4.9% y/y during the week of June 27 (*Fig. 11*).

US Labor Market II: Where the Jobs Are. Consumer spending tends to be the key driver of employment. It's also true that employment is the key determinant of personal income and consumer spending. Hard-landers have been predicting that consumers will retrench for quite some time. From 2022 through 2024, they predicted that consumers would run out of the excess saving accumulated during the pandemic. The tightening of monetary policy from March 2022 through July 2023 was expected to weigh on consumer spending. Nevertheless, consumer spending continued to grow.

Now the consumer crusher is expected to be student loans. Close to 50 million Americans have student loans. They totaled $1.8 trillion during Q1, exceeding auto loans of $1.6 trillion (*Fig. 12*). Federal student loan borrowers were required to resume making payments in October 2023, after a payment pause that began in March 2020 due to the Covid-19 pandemic. Interest on federal student loans started accruing again on September 1, 2023. Collections on defaulted federal student loans resumed on May 5, 2025, as announced by the Department of Education.

Student loans undoubtedly will weigh on many consumers' spending capacity. However, there are well over 50 million Baby Boomers, who undoubtedly have no student loans. They are currently 61-79 years old and are increasingly retiring. Collectively, they have $82.4 trillion in net worth, or roughly half of total household income (*Fig. 13*).

We expect that the Baby Boomers will continue to spend on health care and social assistance, leisure and hospitality, accommodation and food services, and financial activities. Employment gains in these four industries totaled 1.25 million this year through June, surpassing the 782,000 increase in total payroll employment during the first half of this year (*Fig. 14*).

Vietnam I: Big Debut. For President Donald Trump, it must be sweet indeed for Vietnam to be the first Asian nation to agree to a trade deal. After all, the *$476 billion economy* was the real winner of the Trump 1.0 tariffs.

The vast majority of the jobs that Trump thought would move from China to the US pivoted to Vietnam instead. The place is often referred to as a "*mini-China*" thanks to its communist politics, factory-heavy growth model, low labor and land costs, and sizable *102 million-strong population*.

On the way out the door after losing the 2020 election, Trump 1.0 registered its displeasure by *adding Hanoi* to the US Treasury's dreaded "currency manipulator" list. And the administration did so again in 2025, by slapping an *outsized 46% reciprocal tariff* on the place, roughly double *Japan's 24% rate*. Though a deal with China remains the real prize for Trump 2.0, Vietnam's early submission surely helped cap off a week that included the signing of Trump's huge tax-and-spending bill.

The logic of Vietnam's *first-mover advantage* shouldn't be lost on global investors seeking safe havens in developing Asia. However, Vietnam's volatility-prone markets aren't always easy to navigate; its economy is unusually vulnerable to boom-and-bust cycles.

The good news is that Hanoi plans to make the most of last week's global debut. Prime Minister Pham Minh Chinh's government is pledging an *ambitious package* of upgrades to reduce bureaucracy, increase wages, and ensure that the waves of global capital zooming Vietnam's way are put to productive use.

Here's a look at Vietnam's lengthy economic to-do list:

(1) *Moving upmarket*. The push for economic reforms coincides with a *recent visit* by International Monetary Fund (IMF) officials. Vietnam grew its GDP by a China-beating 7.1% y/y in 2025 and *7.52% y/y in the first half* of 2025, the fastest in 15 years, thanks to strong foreign direct investment (FDI). Pham's plan, if executed well, would raise Vietnam's competitive game and accelerate its move upmarket into high-tech industries.

Vietnam's tiger-economy status owes to the "*Doi Moi*" reforms in 1986, which propelled one of the world's poorest countries toward middle-income status. The focus now is on taming the amplitude of dramatic swings from risk-on to risk-off.

(2) *Trump's first Asia deal*. On one level, Vietnam's Trump deal could be a reason for the rest of Southeast Asia to worry. From what we know so far, the terms have Hanoi accepting a *20% duty* on Vietnamese imports and a 40% tax on goods deemed to be transshipped through the nation. US shipments to Vietnam won't be subject to tariffs.

Vietnam had a uniquely weak hand in negotiations, notes Stefan Angrick at Moody's Analytics, given that exports make up 88% of GDP, the vast majority of shipments going to the US. Yet other Asian economies may see it as an omen of higher-than-feared tariffs to come (Trump's reciprocal tariffs delay expires Wednesday).

(3) *FDI boom continues*. Vietnam may be betting—rightly—on the opacity inherent to Asian supply chains. The practice of companies just slapping "Made in Vietnam" on China-made goods can often be impossible to trace. Vietnam's savvy at staying at the center of supply chains explains why it's still winning FDI inflows from *Singapore, South Korea*, and other top

regional exporters keen to hedge risks. *Apple*, *Boeing*, *Lululemon, and Nike* are among US giants pouring investment funds into Vietnam.

Vietnam II: Time for Bold Reforms. Speed bumps abound. Vietnam suffers from a China-like affinity for sprawling state-owned enterprises (SOEs). Yet SOEs' scale and borrowing excesses impede the economy's progress.

Just as in China, these state entities use their deep political ties to slow the transition to an innovative, productive, and startup-friendly economic model that creates millions of office jobs and fresh wealth from the ground up, not the top down.

This is easier said than done, as far more developed nations like Korea can attest. The sprawling family-owned conglomerates that powered Korea into the ranks of the *top-12 economies* stymie the development of tech "unicorn" startups that might disrupt the status quo.

Consider the following:

(1) *Tough balancing act*. One of Vietnam's biggest challenges is balancing the US and China. Among the reasons that the Vietnam trade deal cheers Trump is that it fits with his strategy to get Asian neighbors to cut ties with China. With Vietnam, the focus on penalizing transshipments is "a direct swipe at Beijing, which does this frequently to skirt high US tariffs," *notes* Ian Bremmer at Eurasia Group.

Yet the magnitude of FDI flows heading Vietnam's way means the future of Asian manufacturing is Hanoi's to lose. Here, it's incumbent upon Pham's government to heed the IMF's warning that Vietnam must increase its defenses against global turmoil and increase its competitiveness.

(2) *Spreading GDP benefits*. The to-do list includes: reducing corporate leverage that may constrain investment, upgrading infrastructure to boost potential growth, implementing structural reforms to nurture the private sector, spreading the benefits of rapid GDP to rural areas, and creating bigger and more resilient social safety nets.

Stock market reforms are vital, too. The State Securities Commission has created great expectations that Vietnam could be upgraded to emerging-market status from frontier status by FTSE Russell *as soon as September*. Regulators claim to be working to increase transparency, simplify procedures for foreign investors to open trading accounts, build a better central clearing system, and improve access to derivatives.

(3) *Wooing investors*. MCSI Inc. *highlights* the need to create an offshore currency market and reduce limits on the onshore market, too. Vietnam also must increase the number and sectoral diversity of listed companies. Since 2019, for example, the Ho Chi Minh Stock Exchange (HSX) has added only 14 listed companies, increasing the roster *to 392 from 378*.

It's high time, too, that Vietnam tolerated press freedom and throttled back its internet censorship. Reporters Without Borders ranks the country *173rd* in its Press Freedom Index, barely ahead of China and trailing Nicaragua, Russia, and Myanmar.

Yet Vietnam may now be on the verge of raising its game in ways not seen since the mid-1980s. Here, Hanoi's first-out-of-gate Trump trade deal could be its own "buy" signal.

Calendars

US: Tues: NFIB Business Optimism Index 98.7; Consumer Credit Change $10.5 billion; Consumer Inflation Expectations. **Wed:** Atlanta Fed GDPNow 2.6%; MBA Mortgage Applications; Wholesale Inventories -0.3%; FOMC Meeting Minutes. (Source: FX Street)

Global: Tues: China CPI 0.0%y/y; China PPI -3.2%y/y; RBA Interest Rate Decision 3.60%. **Wed:** BoE Financial Stability Report; Japan PPI -0.2%m/m, 2.9%y/y; Japan Machine Tool Orders 3.4y/y; De Guindos; Nagel; Lane. (Source: FX Street)

Strategy Indicators

S&P 500/400/600 Forward Earnings (*link*): During the July 4 week, forward earnings rose simultaneously for all three of these indexes for the fifth time in the six weeks since May 30. LargeCap's forward earnings rose for a seventh straight week and in nine of the 10 weeks since it bottomed during the April 25 week. MidCap's rose for the sixth time in the seven weeks since it bottomed during the May 16 week. SmallCap's rose for a sixth straight week since it bottomed during the May 23 week. LargeCap's forward earnings rose 0.3% w/w to its fifth straight record high. MidCap's rose 0.1% w/w to a nine-week high and is 2.3% below its record high during the April 4 week. SmallCap's rose 0.5% w/w to a 10-week high and is

13.6% below its June 2022 record. LargeCap's forward earnings is up 25.0% from its 54-week low during the week of February 1, 2023; MidCap's is just 6.7% above its 55-week low during the week of March 10, 2023; but SmallCap's has lagged considerably and is up just 1.2% from a 42-month low during the May 23 week. These three indexes' forward earnings downtrend from mid-2022 to early 2023 was relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2026: LargeCap (9.7%, 8.5%, 13.9%), MidCap (0.4, 1.9, 17.7), and SmallCap (-10.2, 2.0, 18.7).

S&P 500/400/600 Valuation (*link*): Valuations rose w/w for all three of these indexes during the July 4 week. LargeCap's forward P/E rose 0.3pt to a 30-week high of 22.2. It's now 0.1pt below its 43-month high of 22.3 during the December 6 week and 5.2pts above the seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September 2022 and an 11-year low of 11.1 during March 2020. MidCap's forward P/E rose 0.4pt w/w to a 23-week high of 16.3. It's now 0.8pt below its 40-month high of 17.1 during the November 29 week and 4.1pts above the 12-month low of 12.2 in October 2023. That compares to a record high of 22.9 in June 2020 when forward earnings was depressed, and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E rose 0.4pt w/w to a 20-week high of 15.6. It's 2.7pts above its 17-month low of 12.9 during the April 4 week and 5.0pts above its 14-year low of 10.6 in September 2022, but remains 1.5pts below its 41-month high of 17.1 during the November 29 week. That compares to a record high of 26.7 in early June 2020 when forward earnings was depressed, and a record low of 10.2 in November 2009 during the Great Financial Crisis. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's P/E is at a 28% discount to LargeCap's P/E, not much above its 25-year-low 29% discount during the July 5, 2024 week. That compares to a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021. SmallCap's P/E is at a 30% discount to LargeCap's P/E, and little changed from its nine-month-low 32% discount during the April 10 week. That compares to a 23% discount during the November 29 week, which was its best reading since the March 2, 2023 week. It's now 3ppts above its 24-year-low 34% discount during the July 5, 2024 week. SmallCap's P/E is now at a 4% discount to MidCap's, up from a 20-year low 10% discount in late 2021. Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.

Global Economic Indicators

Eurozone Retail Sales (*link*): Eurozone retail sales in May posted the steepest monthly decline since August 2023 on widespread weakness. *Sales* sank 0.7% in May, in line with expectations, following an upwardly revised 0.3% gain in April; *versus a year ago*, sales were up 1.8%, slowing from April's 2.7% increase. The *components of retail sales* show *automotive fuels* posted the steepest decline in May, sliding 1.3%, after advancing the prior four months by a total of 2.7%. *Food, drinks, and tobacco* dropped 0.7% during the month, after climbing three of the prior four months by a total of 1.5%. Meanwhile, spending on non-food products dipped 0.6% in May after rising two of the prior three months by 0.7%. *Verus a year ago*, sales were above year-ago levels in automotive fuels (2.8%), non-food products ex fuel (2.4), and food, drinks, and tobacco (0.5). May data are available for all of the *Eurozone's four largest economies*. On a *month-over-month* basis, Germany (-1.7) posted a steep drop, while sales in Italy (-0.4) and France (-0.2) posted fractional declines during May and Spain (0.2) recorded a slight uptick. On a *year-over-year* basis, Spain (4.8% y/y) led the pack, followed by France (3.4) and Germany (1.6), with Italy (-0.4) basically flat.

Germany Industrial Production (*link*): German industrial production in May was a surprise on the upside, helped by its export-led car and pharmaceutical sectors, which rebounded from April declines—the first month of Trump's tariff blitz. *Industrial production* jumped 1.2% May, more than double consensus expectations of a 0.5% gain. *By industry*, energy (10.8%), pharmaceutical (10.0), and auto (4.9) output increased in May, while the construction industry had a negative impact, dropping 3.9%. *Excluding energy and construction*, production rose 1.2%, rebounding from April's 2.1% drop. *By sector*, both consumer and capital good output increased in May, led by a 4.1% jump in capital goods, with consumer goods ticking up only 0.5%; intermediate goods output sank 2.1% during the month.

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