



August 4, 2025

Morning Briefing

Relax Folks: Jobs Report Was OK

Check out the accompanying [chart collection](#).

Executive Summary: Yes, payroll employment rose less than expected in July, and, yes, revisions pegged it lower than initially thought during May and June. That doesn't mean demand for labor has slacked off, as the extreme reactions of the financial markets and our President suggest. The payroll weakness says more about the supply of labor than demand for it. Indeed, the two are in balance, which Fed Chief Powell even said last week. Other labor market barometers indicate strength: Hours worked are at a record high; so are wages—even adjusted for inflation. Companies aren't firing more, though they are hesitating to hire so the duration of unemployment is up. The uncertainties related to Trump's Tariff Turmoil account for that. ... Also: Dr Ed reviews "Untamed" (+).

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US Labor Market: Still Resilient—Really! Friday's July employment report was a shocker. Payroll employment rose 73,000, which was weaker than the consensus estimate of 100,000. The bigger shock was the 258,000 downward revisions in payrolls during May and June. So over the past three months through July, the average increases in total and private-industry payrolls were only 35,300 and 51,700 ([Fig. 1](#)).

The stock market sold off sharply on the news. So did the dollar index (DXY). The price of gold rose. Bond yields fell, and so did oil prices. It's hard to put a positive spin on this news, but not for us! Consider the following:

(1) *Record hours worked.* Aggregate hours worked in private industry rose 0.4% m/m to yet another record high in July ([Fig. 2](#)). Private industry payrolls rose only 0.1%, but the average workweek in private industry rose 0.3% ([Fig. 3](#)).

(2) *Record wages & salaries.* Our Earned Income Proxy (EIP) for private industry wages

and salaries in personal income rose solidly by 0.7%, as the 0.4% increase in aggregate hours worked was boosted by a 0.3% increase in average hourly earnings. All three variables were at record highs in July ([Fig. 4](#) and [Fig. 5](#)). That augurs well for July's retail sales report, which will be released on August 15, and personal income, which will be released at the end of next month.

(3) *Real wages rising*. The 0.4% m/m increase in average hourly earnings during July probably outpaced the increase in consumer prices during the month. The 0.7% gain in our EIP undoubtedly did so. Consumers' real hourly wages and aggregate earned incomes continue to rise ([Fig. 6](#)).

On Thursday of last week, Q2's Employment Cost Index report showed increases of 4.2% q/q (saar) and 3.5% y/y ([Fig. 7](#)). This measure of labor compensation includes benefits along with wages and salaries. The headline PCED measure of consumer prices rose 2.6% y/y through June. Real wages are rising.

(4) *JOLTS showing more jobs*. Again, the shocker was the big downward revisions in May and June payroll gains to only 19,000 and 14,000, respectively. That was on Friday. On Tuesday of last week, June's JOLTS report showed May and June payroll gains of 252,000 and 144,000 ([Fig. 8](#)). We calculate these by subtracting separations from hires in the JOLTS report. Let's see if July's JOLTS report (to be released early in September) shows similar downward revisions for May and June.

(5) *Demand in sync with supply*. We attribute some of the recent slowdown in payroll employment gains to a shortage of workers, not weakening demand for workers. We can track the supply of workers by monitoring the civilian noninstructional labor force compiled monthly by the Bureau of Labor Statistics ([Fig. 9](#)). It has stopped growing in recent months, as the Trump administration has very effectively stopped illegal border crossings by migrants and proceeded to deport those who have entered the US illegally.

We can track the demand for labor using a data series concocted by Fed Chair Jerome Powell. It is simply the sum of household employment (which measures the number of workers, not the number of jobs) plus job openings pushed ahead by one month. The latter series is from the JOLTS report. This proxy for labor demand has been very closely tracking the labor force series since the start of the year. Indeed, the two series have been nearly identical so far this year, which doesn't happen very often.

This implies that the weak gains in payrolls in recent months might have something to do

with the supply of labor. The demand for labor might have been temporarily weakened by employers' holding off on hiring until Trump's Tariff Turmoil (TTT) abates.

Powell briefly addressed this issue in his press conference last Wednesday as follows: 'You do see a slowing in job creation, but also a slowing ... in the supply of workers. So you've got a labor market that's in balance, albeit partially because both demand and supply for workers [have been] coming down at the same pace, and that's why the unemployment rate has remained roughly stable. ...'

(6) *Productivity booming.* Another implication of the significant downward revisions in May and June payrolls is that Q2's productivity should show a big gain when it is reported on August 7. That's especially true since real GDP rose solidly during the quarter by 3.0% (saar). Real GDP declined 0.5% (saar) during Q1, and productivity fell 1.5% during the quarter ([Fig. 10](#)).

(7) *Duration of unemployment rising.* The main problem in the labor market seems to be that it is taking longer for the unemployed to find jobs. Layoffs remain very low according to the Challenger monthly report and to weekly initial unemployment claims ([Fig. 11](#)).

The average duration of unemployment rose to 24.1 weeks during July to the highest reading since April 2022 ([Fig. 12](#)). The median duration remained relatively low at 10.2 weeks. In our opinion, the weakness in payroll employment during May and June (especially after the downward revisions) reflected the uncertainty unleashed by TTT. Employers responded by reducing hiring rather than by increasing layoffs.

If the courts soon rule that Trump does not have the legal authority to impose tariffs, as seems increasingly likely, then TTT should abate. In this scenario, US companies that have been paying Trump's tariffs are likely to demand rebates of the duties they already paid. Less uncertainty about tariffs should cause employers to step up their hiring activities.

(8) *Unemployment by age cohort.* The unemployment rate for teens aged 16 to 19 has been rising sharply in recent months to 15.2% during July, the highest since December 2020 ([Fig. 13](#)). On the other hand, the jobless rate was only 3.8% for adults (i.e., 20 years and older). This suggests that the rising duration of unemployment is mostly affecting young workers.

(9) *Solid GDPNow.* The Atlanta Fed's [GDPNow](#) tracking model was updated on Friday after the release of July's employment report and the month's national manufacturing purchasing managers' survey. The latter was weaker than suggested by the Fed Five's regional

business surveys ([Fig. 14](#)). (That's our name for the five district Federal Reserve Banks that survey businesses in their regions monthly.) Nevertheless, Q3's real GDP growth is tracking at 2.1%, with real consumer spending rising 1.6% ([Fig. 15](#)).

(10) *Blaming Trump's Tariff Turmoil, not Erika*. President Trump responded to Friday's employment report by firing Erika McEntarfer, commissioner of the Bureau of Labor Statistics (BLS). In a social media post, he claimed that she had 'RIGGED' the jobs figures 'to make the Republicans, and ME, look bad.'

McEntarfer had worked for the government for more than 20 years before being nominated by President Joe Biden to lead the BLS in 2023. She later was confirmed near unanimously by the US Senate, including by current Vice-President JD Vance, then an Ohio senator. It is unfortunate indeed that Trump fired McEntarfer. Ironically, Trump's tariff and immigration policies probably caused the recent soft patch in the labor market, which remains strong nonetheless according to our analysis above

(11) *Record employment*. Finally, keep in mind that payroll employment rose to a record high in July. So did payroll employment in the following industries: wholesale trade, hospitals, nursing and residential care facilities, social assistance, construction, financial activities, state and local government, food services and drinking places, educational services, leisure and hospitality, and real estate, rental and leasing.

Movie. "Untamed" (+) is a 2025 Netflix miniseries about a murder mystery set in Yosemite National Park. A federal agent, assigned to solve crimes in the national parks, is on the case. He has his own personal demons that might be affecting his judgment in solving the who-done-it. The plot is dark and convoluted. However, Yosemite is very bright and beautifully filmed. (See our movie reviews [archive](#).)

Calendars

US: Mon: Factory Orders -5.2%; Loan Officer Survey. **Tues:** ISM NM-PMI 51.1; Trade Deficit \$61.0b. (Source: FX Street)

Global: Mon: Eurozone Sentix Investor Confidence; Spain Unemployment Change -21.3k. **Tues:** Eurozone, Germany & France C-PMIs 51.0, 50.3 & 49.6; Eurozone, Germany & France NM-PMIs 51.2, 50.1 & 49.7; France Industrial Production 0.2%; Spain Industrial Production; UK C-PMI & NM-PMI 51.0 & 51.2; China Caixian NM-PMI. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index fell 2.3% during the August 1 week and finished 2.4% below its July 28 record high. That wasn't as bad as the 2.9% decline for the AC World ex-US index, which is just 3.6% below its July 24 record high. The AC World ex-US had been hitting new record highs since May 14 for the first time since June 15, 2021. Despite its recent strength, the US MSCI only outperformed the AC World ex-US in 10 of the past 27 weeks. EMEA was the best performing region last week, albeit with a decline of 1.0%, followed by EM Latin America (-1.8%), EM (-2.5), and EM Asia (-2.8). EMU (-4.4) was the worst regional performer, followed by Europe (-4.1) and EAFE (-3.1). The Japan MSCI index, with a drop of 0.8%, performed the best among country indexes for a second week, ahead of Brazil (-1.3), Australia (-1.5), Hong Kong (-1.6), and the UK (-1.8). The Sweden MSCI index was the worst performer w/w, with a decline of 5.6%, followed by France (-5.1), Germany (-4.5), Korea (-3.6), and China (-3.4). In terms of ytd performance rankings, the US MSCI index is up 6.2% ytd, but ranks as the second worst country performer and trails the 14.8% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EMU leads with a gain of 21.5%, followed by EM Latin America (20.1), Europe (17.3), EMEA (15.6), EAFE (15.2), and the AC World ex-US. EM Asia is the worst ytd performer, albeit with a gain of 13.3%, followed by EM (14.0). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 40.8%, followed by Korea (36.0), South Africa (27.9), Germany (27.3), and Mexico (25.9). The worst performing countries ytd: India (-0.6), the US (6.2), Australia (9.4), Japan (10.7), and Taiwan (12.7).

US Stock Indexes ([link](#)): All but one of the 48 major US stock indexes that we follow fell during the week ended August 1, down from all 48 indexes rising in the prior week. The Dow Jones 15 Utilities index was the best performer for the week, rising 2.3%, ahead of Russell 1000 Growth (-1.8%), S&P 500 LargeCap Growth (-1.8), Russell 3000 Growth (-1.8), S&P 100 MegaCap (-2.1), and S&P Industrials Composite (-2.1). The Dow Jones 20 Transports index was the worst performer, with a decline of 7.7%, S&P 400 MidCap Pure Value (7.0), S&P 500 Transportation (-6.2), and S&P 600 SmallCap Pure Value (-6.0). Thirty-four of the 48 indexes are now higher so far in 2025, down from 43 a week earlier and a ytd peak of 47 in mid-February. With a gain of 12.7%, the Dow Jones 15 Utilities index is in the top spot as the best performer so far in 2025, ahead of S&P 500 LargeCap Pure Growth (11.5), S&P 500 LargeCap Growth (10.1), Russell MidCap Growth (9.8), and Nasdaq 100 (8.3). The worst performing major US stock indexes ytd: S&P 600 SmallCap Value (-9.2), S&P 600 SmallCap Equal Weighted (-7.6), S&P 600 SmallCap Pure Value (-

7.0), and S&P 600 SmallCap (-6.0).

S&P 500 Sectors Performance ([link](#)): Just one of the 11 S&P 500 sectors rose during the week ended August 1, and five were ahead of the S&P 500's 2.4% decline. That compares to ten S&P 500 sectors rising a week earlier, when six were ahead of the S&P 500's 1.5% gain. The outperformers last week: Utilities (1.5%), Communication Services (0.0), Consumer Staples (-1.1), Information Technology (-1.4), and Energy (-1.6). The underperformers last week: Materials (-5.4), Consumer Discretionary (-4.5), Health Care (-3.9), Financials (-3.8), Real Estate (-3.5), and Industrials (-3.3). The S&P 500 is now up 6.1% ytd, with eight of the 11 sectors positive ytd and five ahead of the index. During the June 20 week, Consumer Discretionary and Health Care were trailing so far behind ytd that they were the only sectors trailing the index. Industrials still wears the crown as the best ytd performer, with a gain of 13.6%, now barely ahead of Utilities (13.2), Communication Services (11.3), Information Technology (10.9), and Financials (6.3). These six sectors are lagging the S&P 500 so far in 2025: Consumer Discretionary (-5.2), Health Care (-4.8), Energy (0.0), Real Estate (1.3), Consumer Staples (3.0), and Materials (3.7).

US Economic Indicators

Employment ([link](#)): Very soft jobs report. The July increase was considerably below expectations, and once again there were sizable downward revisions to the prior two months. Payroll employment climbed only 73,000 last month, below the consensus estimate of 110,000, while the changes in both June (to 14,000 from 147,000) and May (19,000 from 144,000) payrolls were revised sharply lower for a net loss of 258,000! Private payroll employment climbed 83,000 in July, while government jobs fell 10,000 during the month, following an 11,000 increase in June and a 50,000 decrease in May. The service-providing sector added 96,000 to payrolls last month, above June and May gains of 16,000 and 82,000, respectively, while the goods-producing sector lost 13,000 jobs, for the third successive month, reflecting losses in manufacturing jobs of 11,000 in July, 15,000 in June, and 11,000 in May—primarily durable goods manufacturing. Within service-producing industries, once again health care led the pack, adding 55,000 in June—above the average monthly gain of 42,000 over the prior 12 months—with ambulatory health care services (29,000) once again leading the gains in this sector, followed by hospitals (16,000). Retail trade employment added 15,700 jobs, leisure & hospitality added only 5,000 jobs, and professional & business services shed 14,000 jobs during the month.

Wages ([link](#)): Average hourly earnings (AHE) for all workers on private payrolls increased

0.3% in July, while the three-month rate increased 4.0% (saar), a tick below the yearly rate of 3.9%. July's yearly rate is down from November's 4.2% and a tick above 3.8% rates in June, May, and April. The yearly rate was at 3.6% last July, which was the lowest since May 2021. Service-providing industries showing three-month rates above their yearly rates: information services (6.2% & 5.4% y/y), professional & business services (5.5 & 5.1), wholesale trade (3.7 & 3.2), other services (3.4 & 2.5), and education & health services (3.4 & 3.2). Service-providing industries showing three-month rates below their yearly rates: utilities (0.1 & 1.6) and transportation & warehousing (2.6 & 2.9), with financial services (4.4 & 4.5) virtually matching its yearly rate. Within goods-producing industries, the annualized three-month rates were below the yearly rates for both durable goods (2.7 & 3.7) and nondurable goods (2.2 & 3.4) manufacturing.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed to yet another a new record high in July, increasing 0.6%. Average hourly earnings advanced 0.3% during the month, while aggregate weekly hours edged up 0.3%—with private payroll employment up 0.1% and the average workweek up 0.2%.

Unemployment ([link](#)): The number of unemployed rose 221,000 in July to 7.24 million, with the unemployment rate ticking up from 4.1% to 4.2%—remaining in a narrow range from 4.0% to 4.2% since last May. Household employment fell 260,000 last month, while the labor force was 38,000 lower. The participation rate edged down from 62.4% in May to 62.3% in June and 62.2% in July. The unemployment rates in July climbed for African Americans (to 7.2% from 6.8%), Asians (3.9 from 3.5), and Hispanics (5.0 from 4.8), while they ticked up from 3.6% to 3.7% for Whites. By education: Unemployment rates rose in July rose for those with a high-school diploma (4.4% from 4.0%) and those with a bachelor's degree or higher (2.7 from 2.5), while rates fell for those with less than a high-school diploma (to 5.5 from 5.8) and some college or an associate's degree (3.0 from 3.2).

Personal Income & Consumption ([link](#)): Personal income rebounded from May's decline in June. Personal income rose 0.3%, a tick above the consensus estimate of 0.2%, after dropping 0.4% in May—primarily reflecting increases in government social benefits and in compensation. Disposable income followed suit, climbing 0.3% from May's 0.5% decline. Personal consumption expenditures rose 0.3% after holding steady in May, as goods consumption rebounded 0.5% from May's 0.7% shortfall, led by a 0.7% increase in nondurable goods spending, while durable goods consumption was flat. Services consumption continued to climb, rising 0.3% in June and 2.0% year to date. Adjusted for inflation, consumer spending ticked up 0.1%, following a 0.2% loss and a 0.1% gain the

prior two months. Real goods consumption ticked up 0.1% after falling 0.8% in May, with durable goods spending falling for the third straight month, by 0.5% in June and 2.5% over the period; nondurable goods spending rebounded 0.4% from May's 0.3% decline. Real services consumption increased for the fourth successive month, by 0.1% in June and 0.6% over the period. Personal saving fell \$8.5 billion in June to \$1,007.8 billion, with the personal saving rate holding at 4.5% in June, down from April's 5.0% rate. Turning to prices, both the headline & core PCEDs rose 0.3% in June, a tick above May's 0.2%. The headline PCED accelerated for the second month to 2.6% y/y in June, after easing from 2.7% in February to 2.2% in April, while the core rate was unchanged at 2.8% in June, after easing from 2.9% in February to 2.6% in April. The headline and core rates peaked at 7.2% and 5.6%, respectively, during June 2022 and September 2022.

Consumer Sentiment Index ([link](#)): Consumer sentiment rose for a second straight month in July but remains below December 2024 levels, according to the final July reading in the measure. Consumer sentiment in July climbed to 61.7, after falling from a post-election bounce of 74.0 during December to 50.8 in April and May. The current conditions component climbed for the second month, to 68.0 in July, after falling from 75.1 in January to 58.9 by May, while expectations slipped to 57.7 last month, after climbing the prior two months from 47.3 in April to 58.1 in June. Turning to inflation, year-ahead inflation expectations fell for the second straight month, sinking from 6.6% in May to 4.5% in July, the lowest reading since February 2025, while long-run inflation expectations eased for the third month from 4.4% in April to 3.4%, the lowest reading since the start of the year. Still, both these readings are above the December 2024 rates.

US Manufacturing PMI ([link](#)): The ISM M-PMI contracted for the fifth consecutive month in July, sinking to its lowest level since October 2024 (46.9), after a brief expansion during January and February. The M-PMI dropped to 48.0 in July from 49.0 in June, below the consensus estimate of 49.5. According to ISM, the overall economy continued its expansion for the 63rd month after a one-month contraction in April 2020. (A manufacturing PMI above 42.5 over a period of time generally indicates an expansion of the overall economy.) The new orders (to 47.1 from 46.4) measure was in contraction territory for the sixth successive month, after three months of expansion, while the production (51.4 from 50.3) gauge moved further above the breakeven point of 50.0. The suppliers' deliveries (49.3 from 54.2) gauge dropped below 50.0, indicating faster deliveries, after seven consecutive months in expansion (or "slower") territory. The employment (43.4 from 45.0) measure continued to show jobs cuts in the sector, with jobs in July falling at a faster pace than in June. Meanwhile, prices (64.8 from 69.7) remain in expansion (or increasing) territory, though rose at a slightly slower pace than during June.

Construction Spending ([link](#)): Construction spending fell again in June, as higher borrowing costs and growing inventories impeded building, particularly of single-family units. Total construction spending fell 0.4%, weaker than the consensus estimate of unchanged. Residential investment contracted 0.7%, while nonresidential investment slipped 0.1%. Private construction investment dropped 0.5%, with both residential (-0.7%) and nonresidential (-0.3) investment reporting declines again. The decrease in residential construction in June was led by a 1.8% slump in new single-family building, while multi-family construction was flat. The shortfall in nonresidential construction was led by declines office (-1.4%), religious (-1.3), educational (-1.0), and commercial (-0.6) building, while the largest gains occurred in transportation (2.2) and amusement & recreation (1.0) building. Versus a year ago, total construction spending was 2.9% below a year ago, with private construction investment down 5.2%, reflecting declines in both residential (-6.2) and nonresidential (-4.0) building. Meanwhile, public construction building was little changed during June, ticking up 0.1%, though was 5.2% above a year ago.

Global Economic Indicators

Global Manufacturing PMIs ([link](#)): “Worldwide manufacturing sector slips back into contraction at the start of the third quarter” was the headline of the July report. The JP Morgan Global M-PMI fell from 50.4 to 49.7 in July, while business confidence about the year ahead deteriorated to a three-month low. Both the output (to 49.7 from 51.3) and new orders (49.8 from 50.3) measures slipped below the breakeven point between expansion and contraction, while employment (49.4 from 49.7) continued to show a weak job market. The report notes that after showing mild growth in June, the production of all three sectors covered—consumer, intermediate, and investment goods—turned down modestly during July. Regionally, Asia excluding mainland China and Japan was a bright spot, with India remaining at the top of the global manufacturing output growth rankings, followed by Vietnam and Thailand. Meanwhile, production volumes in both China and Japan contracted after short-lived gains in June. The Eurozone exhibited growth for a fifth straight month, led by solid expansions in Ireland and Spain, while Greece, the Netherlands, Germany, and Austria are also showing gains. North America showed a slowing in growth, with the US posting only a mild increase in production, while Canada and Mexico showed steep downturns, though rates of contraction eased. Worldwide, the largest declines were recorded in Taiwan, followed by Turkey and Poland. Turning to prices, the survey notes rates of inflation in input costs and selling prices remained broadly stable, with both easing only slightly since June. Upward price pressures in both price measures were stronger (on

average) in developed nations than emerging markets.

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