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The missed education of the July employment report

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- The abnormally large downward revisions that accompanied the July establishment survey – in particular state and local education payrolls – may provide clues as to the why the household survey appeared stronger in June and weaker in July.
- Though household survey data are prone to large monthly fluctuations, recent volatility in the household survey has been influenced to an abnormal degree by the 18–19-year-olds age cohort. Their unemployment rate has witnessed a nearly 3-ppt rise since May while the rate for 20-24 year olds has declined by 30bps and the rate for those 25 and over (including prime age) has been unchanged.
- The latest establishment survey data show a strikingly-similar pattern to 2024 in that the average June-July net private payroll gain was roughly 60% below the average from January to May. Taking these seasonal variations in both the establishment and household surveys into account, the July employment report may not suggest a material deterioration in the labor market, but rather a continuation of the low hiring / low firing dynamics that have been in place for some time. Indeed, the average unrounded unemployment rate across June and July (4.183%) is slightly lower than May's (4.244%).

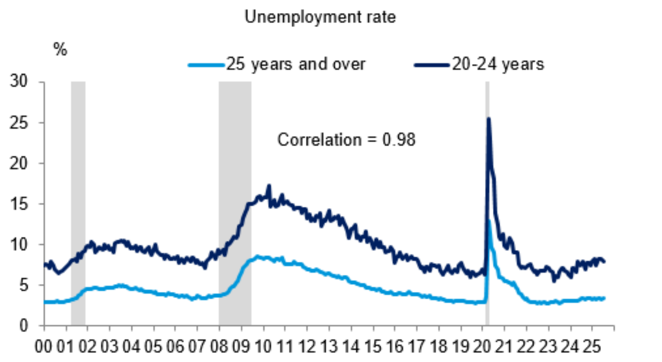
Seasonal patterns may have exaggerated the drop in unemployment in June / rise in July

As the first two charts below show, the unemployment rate for 18-19 year olds jumped by 2.9ppts between May and July. However, the unemployment rate for 20-24 year olds fell by 0.3ppts over the same period and was unchanged for those 25 and over including prime age (25-54).

Figure 1: Unemployment rate 18-19 year age cohort

Source: BLS, Haver Analytics, Deutsche Bank

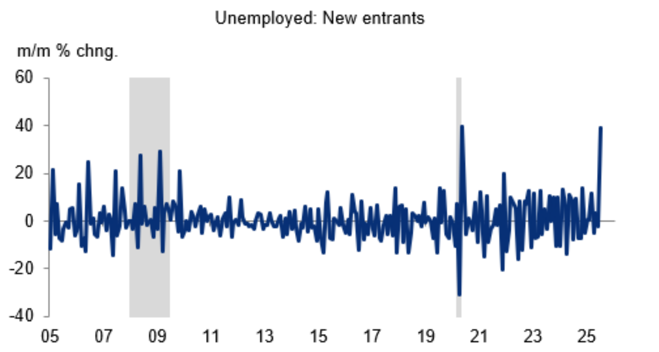
Figure 2: Unemployment rate for 20-24 and 25 and over age cohorts



Source: BLS, Haver Analytics, Deutsche Bank

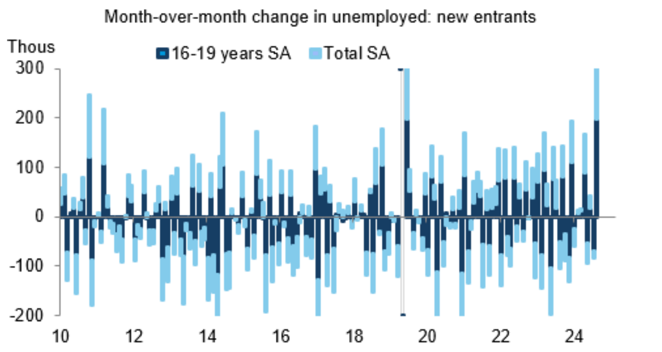
This points to something that would disproportionately affect recent high school graduates. Indeed, if we look at respondents' stated reasons for unemployment, only new entrants showed an abnormally large increase in July, spiking by 275k. As Figure 3 illustrates, the 39% increase in those unemployed who were new entrants in July was the largest since the early months of the pandemic and absent the pandemic, the largest on record. As Figure 4 illustrates, those aged 16-19 made up about 60% of those unemployed new entrant workers in July. Given that the number of unemployed 18-19 year olds is typically anywhere from 50-80% larger than that of unemployed 16-17 year olds, it is likely that the older cohort drove this jump.

Figure 3: Jump in unemployed: new entrants was historically large in July



Source: BLS, Haver Analytics, Deutsche Bank

Figure 4: The majority of the spike in unemployed: new entrants in July was due to 16-19 year olds



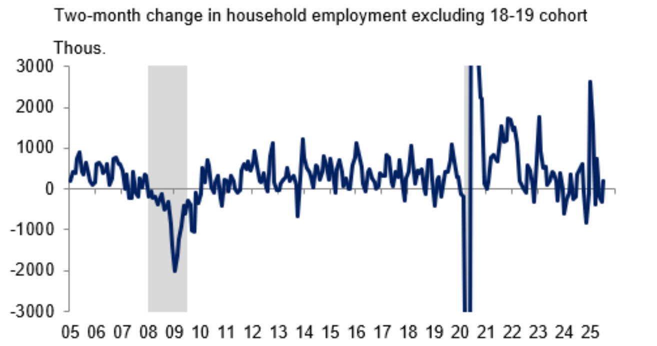
Source: BLS, Haver Analytics, Deutsche Bank

Not surprisingly, the recent swings in household employment across age cohorts have seen a similar pattern. Household employment for 18-19-year olds has plunged by nearly 10% since May, in contrast to a negligible 0.1% decline in the level of employment for 20-24-year olds and a 0.1% increase for 25 and over (the level of prime age employment has been flat).

Figure 5: 2-month % change in household employment 18-19 year cohort

Source: BLS, Haver Analytics, Deutsche Bank

Figure 6: 2-month change in household employment excluding 18-19 year cohort



Source: BLS, Haver Analytics, Deutsche Bank

On the one hand, the abnormally-large moves within the household survey for the 18-19 year old age cohort over the past couple of months could signal some broader drop in labor demand. On the other, this may have been caused by a late school year that kept high school graduates in school until after June's employment survey week. Akin to how moveable holidays like Easter and Thanksgiving sometimes can distort retail sales readings if they are particularly early or late in the month, this would have temporarily depressed the unemployment rate in June, thereby exaggerating the increase into July. Indeed, the average unrounded unemployment rate across June and July (4.183%) is slightly lower than May's (4.244%).

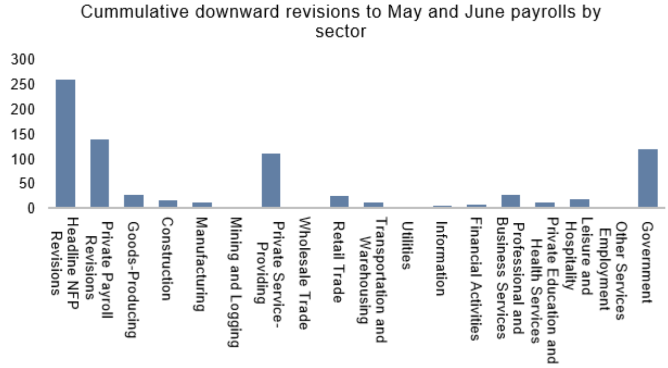
What about establishment survey revisions?

Of the -258k downward revisions to the prior two months in the July employment report 119k were due to revisions to government payrolls. Within government payrolls, the vast majority (109k) of downward revisions were due to state and local government education. These revisions were due to a combination of rolling seasonal factor adjustments to the establishment survey data – applied to lagged data – as well as additional survey responses received by the BLS.

Given that a significant amount of the downward revisions also seems to be a function of state and local education workers, this would corroborate the seasonal factor story for why the household survey appeared stronger in June and weaker in July.

To be sure, the cumulative 139k in downward revisions to private payrolls in May and June are still substantial and broad-based. As the table below illustrates, goods producing sectors were revised down by 28k while services payrolls revised down by 111k.

Figure 7: Cumulative negative revisions to May and June payrolls by sector



Source: BLS & Deutsche Bank

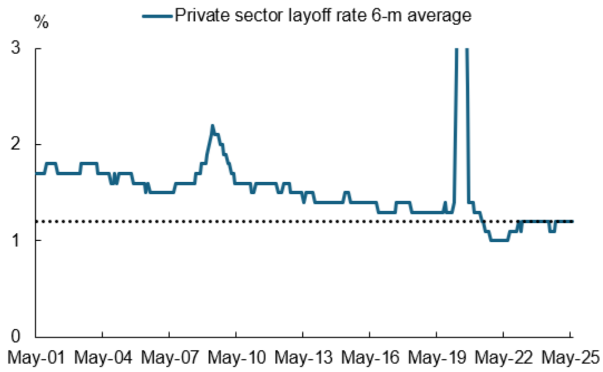
However, in percentage terms, the revisions to private payrolls are less concerning. Interestingly, average private payroll gains are following a nearly identical pattern to last year. Case in point, monthly private payroll gains from January to May of 2024 average 138k before dropping over 60% to 53k over the June and July period. The latest establishment survey data point to a similar drop off as January – May 2025 private payroll gains have averaged 100k versus and June/July average of 43k

In our view, these patterns reflect the low hiring / low firing environment that has defined a somewhat uneasy equilibrium in the labor market over the past year. As the charts below show, the private sector hiring rate remains at 2013 levels, while at the same time the layoffs and discharges rate remains lower than any period prior to Covid. As we have noted (See "Potential paths for breakeven employment"), it does not take much net hiring to keep the unemployment rate steady when population growth is slowing.

Figure 8: Private sector hiring rate 6-m average

Source: BLS, Haver Analytics, Deutsche Bank

Figure 9: Private sector layoff rate 6-m average



Source: BLS, Haver Analytics, Deutsche Bank

Importantly, under more aggressive reductions in immigration, it is plausible that breakeven payroll gains could be under 50k per month – just as we have seen over the past two months. In short, the July employment report reflects a continuation of the same dynamics that have been in place for the past year rather than a further material downshift in the labor market that suggests increased risks to the Fed's employment mandate.

Appendix 1

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