ECONOMIC UPDATE
REGIONS
September 5, 2025

August Employment Report: Both A Demand Side And A Supply Side Story

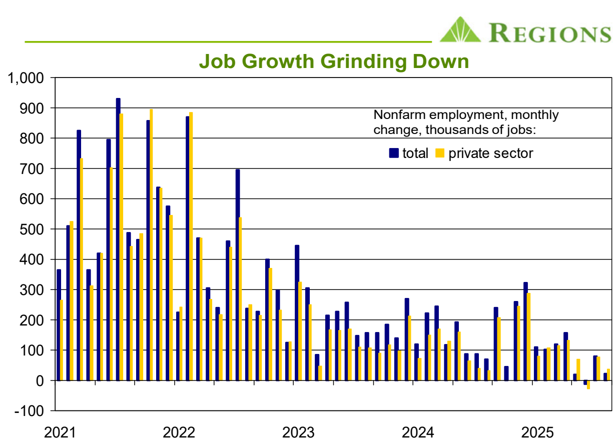
- Nonfarm employment rose by 22,000 jobs in August; prior estimates for June and July were revised down by a net 21,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.3 percent (up 4.4 percent year-on-year)
- The unemployment rate rose to 4.3 percent in August (4.324 percent, unrounded); the broader U6 measure rose to 8.1 percent

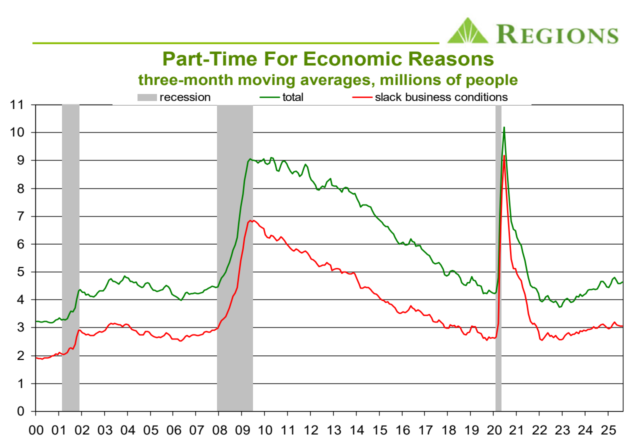
Total nonfarm employment rose by 22,000 jobs in August, below the consensus forecast (75,000 jobs) and even further below our forecast (144,000 jobs), with private sector payrolls up by 38,000 jobs and public sector payrolls down by 16,000 jobs. Prior estimates of job growth in June and July were revised down by a net 21,000 jobs for the two-month period. Aside from tepid job growth, the average length of the private sector workweek has shortened; average weekly hours for July were first reported at 34.3 hours but with the August report that was revised down to 34.2 hours, which is also the initial print for August. The unemployment rate rose to 4.3 percent in August on a jump in the size of the labor force, which is a bit suspect in that it was more than entirely accounted for by a jump in male participation while female participation fell. The broader U6 rate, which also accounts for underemployment, rose to 8.1 percent in August from 7.9 percent in July, an increase triggered by an increase in the number of unemployed and an increase in the number of discouraged workers, while the number of those working part-time for economic reasons was little changed. In what by now is an all-too-familiar refrain, a low initial collection rate to the establishment survey casts doubt on the initial August estimates of nonfarm payrolls, hours, and earnings. The initial collection rate for the August survey was 56.7 percent, second only to April as the lowest rate this year and the lowest August rate since 2000. We were about as wrong about the August employment report as it is possible to be so, as such, our thoughts on the state of the labor market aren't going to count for much. Either way, we have for months been pointing to a slowing trend rate of job growth but have all along argued that there are both demand-side and supply-side factors at play in that slowing trend rate of job growth, and we see nothing in the body of labor market data, including the August employment report, that lead us to change that view. A significant slowdown in the rate at which firms are taking on workers remains the primary factor behind the slowing pace of job growth, as opposed to a rising pace of layoffs, but softer labor force participation has acted as a check on the unemployment rate as the pace of job growth has slowed.

We had anticipated an increase in payrolls in the education segment of state and local government to offset a decline in federal government payrolls, with the net result being an increase in overall public sector payrolls. The gain in the education segment, however, was smaller than our forecast anticipated, so the 15,000 jobs lost in the federal government segment dominated. For a third straight year, the not seasonally adjusted data show private sector payrolls declined in the month of August. One thing that jumps out is that not seasonally adjusted construction payrolls fell this August, the first August decline since 2009. Construction payrolls have been under pressure from both sides, i.e., the supply side (outflow of foreign born labor) and the demand side (pullbacks in single family residential construction and in commercial construction).

The pronounced slowdown in the rate of hiring is clearly impacting the results of the household survey. Over recent months, a steadily rising share of new entrants into the labor force are unemployed upon entry, as they are unable to find jobs; in August, that number rose to 1.999 million persons which, barring the pandemic period, is the most in any month since December 2016. To be sure, the overwhelming majority of new entrants are employed upon entry, but there has been a steady increase in the number of those entering the labor force who are unable to find work. That, along with the increase in the number of discouraged workers, was a key factor in the increases in both the U3 and U6 unemployment rates. It is, however, worth noting that the number of those working part-time for economic reasons, including slack business conditions, has been little changed; were the slowing pace of hiring an overwhelmingly demand-side story, you'd expect that number to have been rising. Still, another manifestation of the slowing pace of hiring is that the number of long-term (i.e., 27 weeks or more) now stands at 1.930 persons which, barring the pandemic period, is the most in any month since October 2016.

The foreign born labor force increased modestly in August. As we've noted, however, this series comes only on a not seasonally adjusted basis, and in any given year the foreign born labor force tends to increase in the month of August. The more important point here, however, is that this August's increase was much smaller than typical for the month, and this still leaves the foreign born labor force more than one million persons smaller than it was in January. We continue to argue this is a key factor behind the pronounced slowdown in the trend pace of job growth.





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