ECONOMIC UPDATE

REGIONS

August 7, 2026

July Employment Report: Another Month, Another Jumbled Mess

- Nonfarm employment fell by 23,000 jobs in July; prior estimates for May and June were revised down by a net 103,000 jobs
- Average hourly earnings rose by 0.1 percent, while aggregate private sector earnings rose by 0.1 percent (up 3.9 percent year-on-year)
- The unemployment rate fell to 4.1 percent in July (4.074 percent, unrounded); the broader U6 measure held at 7.9 percent

While our below-consensus forecasts anticipated total nonfarm payrolls rising by74,000 jobs and private sector payrolls rising by 63,000 jobs, after seeing various labor market data points this week we came to see our forecast as too ambitious and looked for a downward revision to the initial estimate of June job growth and a much softer July number than our published forecast. Still, the July employment report is more than we bargained for. Total nonfarm payrolls fell by 23,000 jobs in July, with private sector payrolls up by 30,000 jobs and public sector payrolls down by 53,000 jobs. Prior estimates of job growth in May and June were revised down by a net 103,000 jobs for the two-month period, with that revision split almost equally between private sector and public sector job growth. Average hourly earnings rose by just 0.1 percent, with a like-sized increase in aggregate private sector wage and salary earnings that leaves them up 3.9 percent year-on-year. With a further decline in the labor force participation rate, the unemployment rate fell to 4.1 percent and is basically a rounding error away from printing at 4.0 percent. The by now all too familiar caveat is that there is considerable noise in the data that make the reported month-to-month changes in nonfarm payrolls little more than a jumbled mess. The longer-term trends in the data, however, are consistent with a trend rate of job growth that is notably slow but nonetheless sufficient to keep the unemployment rate in check given ongoing erosion in labor force participation. We'll note that at this point we have even less faith in the data from the household survey than we do in the data from the establishment survey, which is not a lot.

The drop in total nonfarm payrolls owes largely to payrolls in the education segment of local governments falling by 49,600 jobs, likely reflecting a later end to the school year that left teachers and staff on the books in June only to drop off in the July data, at odds with what seasonal adjustment was anticipating. This has nothing at all to do with underlying labor market conditions. At the same time, payrolls in leisure and hospitality services are reported to have fallen by 40,000 jobs, which many are rationalizing as hiring amongst restaurants, bars, hotels, and retailers tied to the World Cup being reversed. While a seemingly plausible premise, our problem with it is that there is no evidence whatsoever of any such bump in hiring, as is readily seen in the not seasonally adjusted data. Unadjusted payrolls in leisure and hospitality services rose by combined 827,000 jobs in May and June, almost identical to the net gain for the same two months in 2025, but if there had been a World Cup related boost this year's increase should have been larger than last year's. Moreover, aggregate hours worked in leisure and hospitality services fell in June and July, at odds with the premise of stepped-up labor demand tied to World Cup traffic. We've flagged this industry group as a source of considerable seasonal adjustment noise that has reduced the reported month-to-month changes to mere noise, but on a running twelve-month basis the noise washes out of the data.

Retail trade payrolls fell by 19,400 jobs in July, with noteworthy weakness amongst general merchandise stores. Manufacturing payrolls were up by 5,000 jobs in July with a pronounced split between durable goods manufacturers, amongst whom payrolls rose by 18,000 jobs, and nondurable goods manufacturers, amongst whom payrolls fell by 13,000 jobs. Data across the remaining industry groups show a hodge-podge of modest increases/decreases in payrolls. To that point, the one-month hiring diffusion index, a gauge of the breadth of hiring across private sector industry groups, fell to 51.8 percent in July, narrower than over the prior four months. Still, the index has topped 50.0 percent in each month in 2026, which goes to our point of tepid but broadly based hiring across private sector industry groups. This, when combined with a still-low pace of layoffs, has pushed trend job growth down to a notably low pace.

Contrary to what many expected, the sharp decline reported in labor force participation amongst the "prime age" cohort (those between twenty-five and fifty-four years-old) in the June data did not even come close to reversing in July, and overall participation fell further. The data show an ongoing drop in the size of the foreign born labor force, with the intra-year patterns even weaker than at the same point of 2025. While growth in the native born labor force leaves the total labor force larger, the reality is that labor force growth is simply not sufficient to sustain a meaningfully faster pace of job growth than being seen at present, which points to the need for faster sustained growth in labor productivity.

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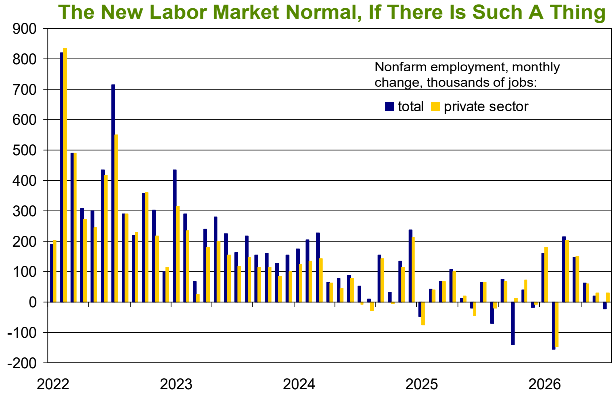
The New Labor Market Normal, If There Is Such A Thing



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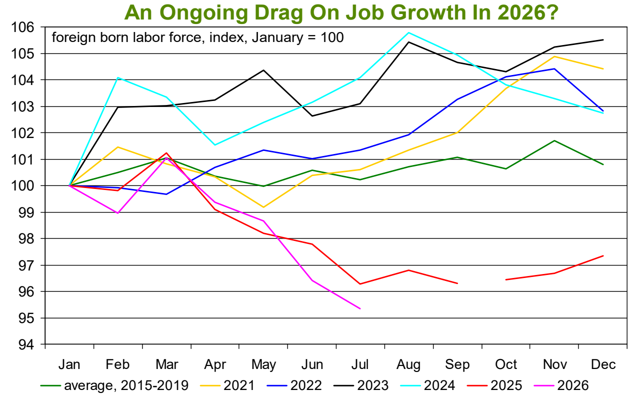
An Ongoing Drag On Job Growth In 2026?



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