

US Daily: July Payrolls Preview (Walker/Rindels)

- We estimate nonfarm payrolls rose by 100k in July, roughly in line with consensus of 105k and below the three-month average of +150k. On the positive side, big data indicators showed a rebound in private sector job growth, though to a still soft pace. On the negative side, we expect unchanged government payrolls, reflecting a 15k decline in federal government payrolls that offsets a 15k increase in state and local government payrolls. We expect both partial payback for the June spike in state and local education hiring and a downward revision to the June increase, which likely resulted in part from residual seasonality.
- We estimate that the unemployment rate rebounded to 4.2% on a rounded basis, reflecting the signal from other measures of labor market slack such as continuing jobless claims. We estimate average hourly earnings rose 0.25% (month-over-month, seasonally adjusted), reflecting negative calendar effects.

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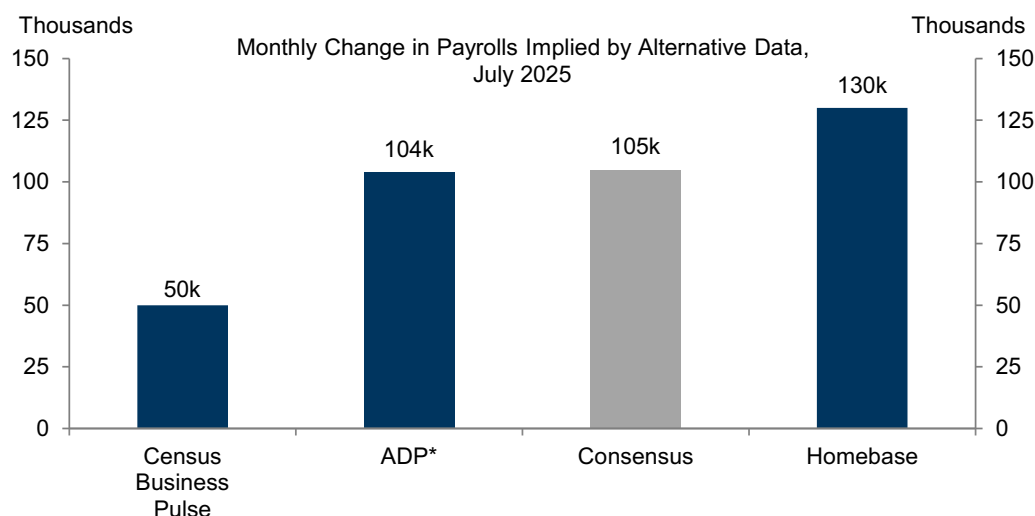
July Payrolls Preview

We estimate nonfarm payrolls rose by 100k in July, roughly in line with consensus of 105k and below the three-month average of +150k. We estimate private payrolls increased 100k (vs. consensus +100k). We describe the factors we considered in our forecast in greater detail below.

Arguing for a stronger-than-expected report:

- **Big data.** Alternative measures of employment growth indicated a rebound in private sector job growth, though to a still soft pace. The indicators that we track averaged 95k in July vs. 39k in June.

Exhibit 1: Alternative Data Indicated a Sequentially Firmer but Still Soft Pace of Job Growth in July

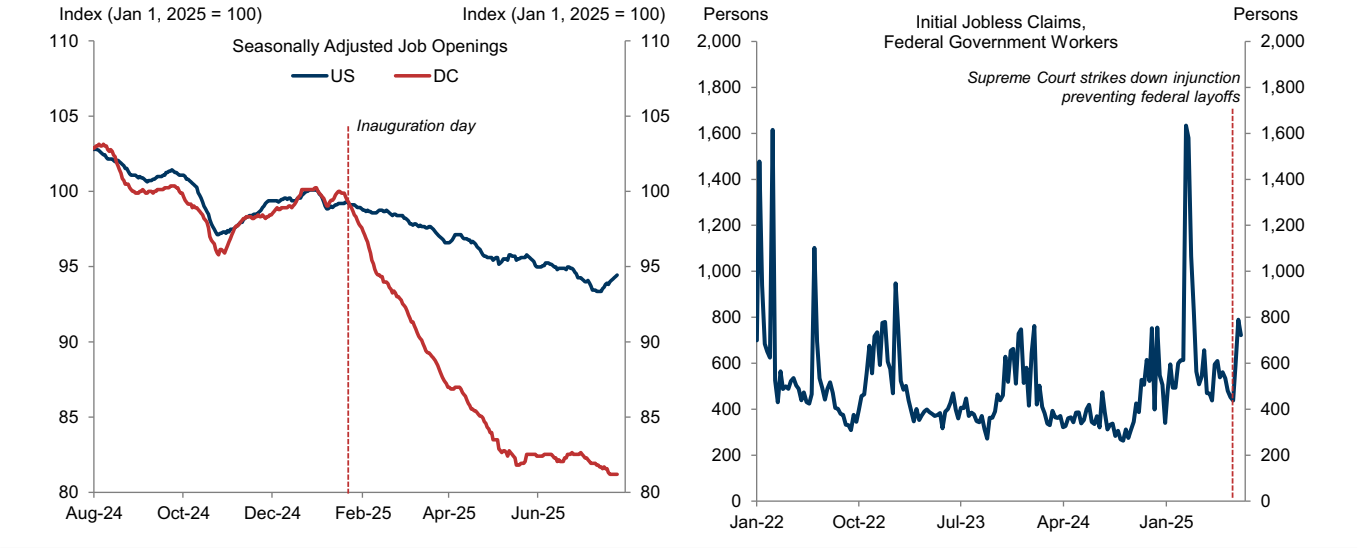


* Because ADP only reports private sector job gains, we add our assumption for government jobs (we forecast unchanged government payrolls this month).

Source: ADP, Department of Commerce, Homebase, Bloomberg, Goldman Sachs Global Investment Research

- **Government hiring.** We expect unchanged government payrolls (vs. +23k per month on average so far this year), reflecting a 15k decline in federal government payrolls that offsets a 15k increase in state and local government payrolls. We expect the ongoing federal government hiring freeze, which was extended from July 15th to October 15th, to continue to weigh on federal government payrolls. While far more federal layoffs have been announced than appear to have been reflected in the official statistics so far, a portion of the shortfall likely reflected the impact of an injunction that paused some layoffs. That injunction was struck down by the Supreme Court earlier this month, though likely too late in the survey period to impact tomorrow's report.

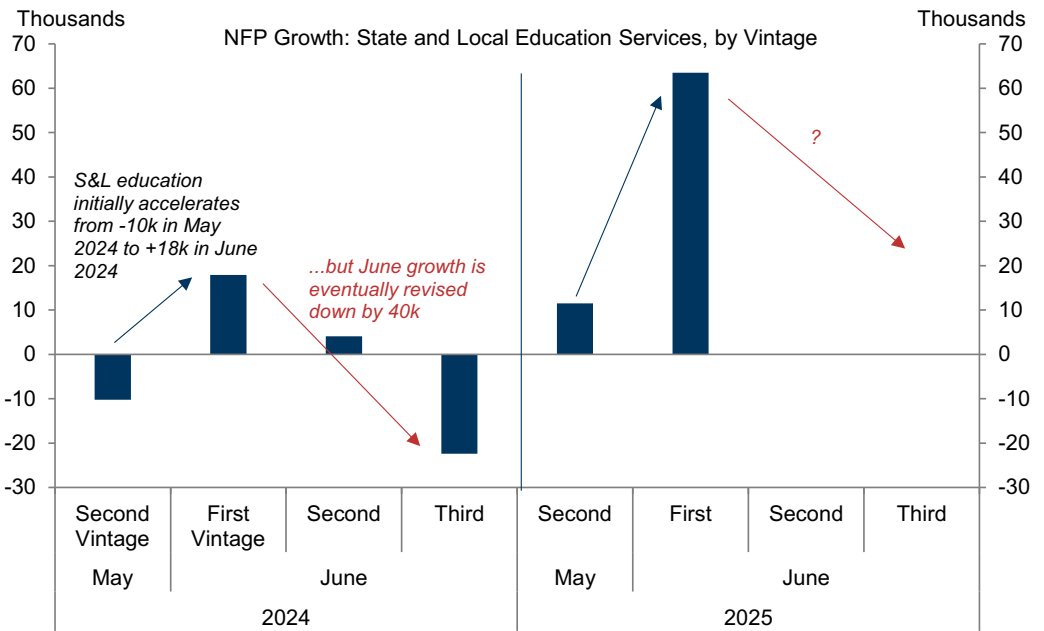
Exhibit 2: Job Openings in Washington DC Have Fallen 19% Since the Federal Hiring Freeze Was Ordered on Inauguration Day; While Many Federal Layoffs Have Been Announced, the Number of Layoffs That Will Be Reflected in July Payrolls Is Likely to Be Limited



Source: Indeed, Department of Labor, Goldman Sachs Global Investment Research

- We have penciled in partial payback for last month's spike in state and local education services hiring—which may have reflected seasonal adjustment difficulties—and a downward revision to the outsized June increase. Exhibit 3 shows that state and local education services employment similarly spiked last year in the first June vintage but was subsequently revised down by 40k.

Exhibit 3: Last Month's Spike in State and Local Education Services Employment Could Be Partly Revised Away, As It Was Last Year

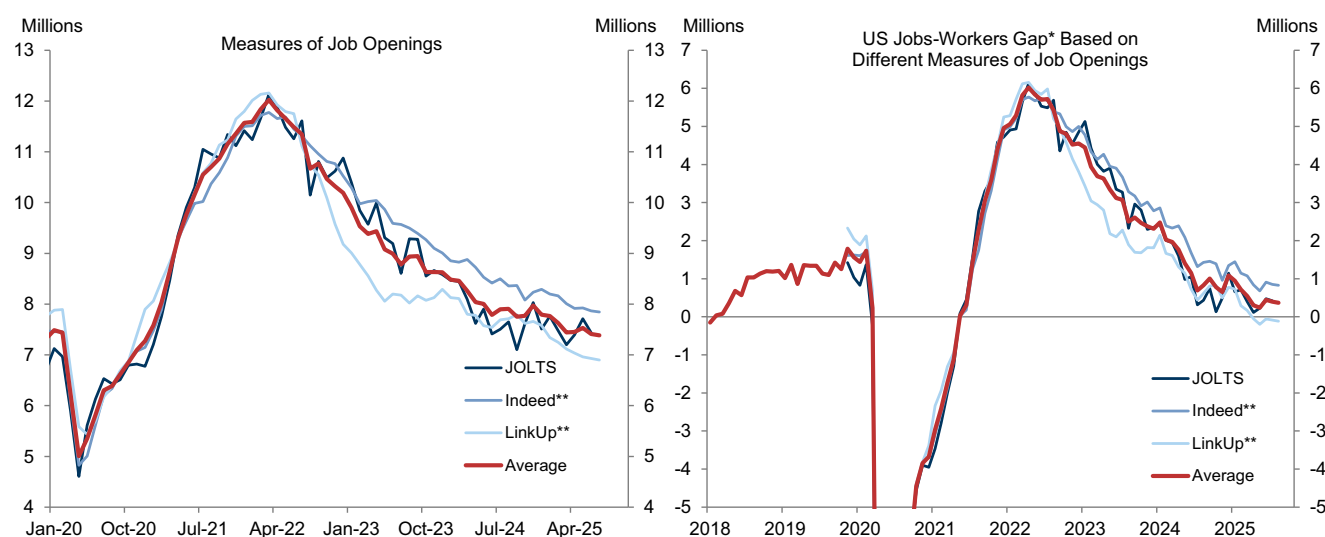


Source: Department of Labor, Goldman Sachs Global Investment Research

Mixed/neutral factors:

- **Layoffs.** Initial jobless claims decreased to 230k on average in the July payroll month from 246k in June. The JOLTS layoff rate remained at 1.0% in June. Announced layoffs reported by Challenger, Gray & Christmas increased by 14k in June to 62k (NSA), compared to 63k on average in 2024.
- **Employer surveys.** Both our manufacturing survey employment component tracker (+0.5pt to 49.1) and our services survey employment component tracker (+1.0pt to 49.1) increased but remained in contractionary territory in July. However, the signal from survey data has been less useful—and at times misleading—during the post-pandemic period and thus has little bearing on our payrolls forecast.
- **Job availability.** While JOLTS job openings decreased by 0.3mn to 7.4mn in June, averaging across a few measures of job openings suggests that openings were roughly unchanged month-over-month (Exhibit 4). The Conference Board labor differential—the difference between the percentage of respondents saying jobs are plentiful and those saying jobs are hard to get—decreased by 0.9pt to +11.3 in July, the lowest level since March 2021 and meaningfully below the 2019 average of +33.2.

Exhibit 4: Various Measures of Job Openings Have Moved Sideways-to-Lower in Recent Months



* Difference between the number of job openings in the prior month and unemployed workers in the current month.

** Scaled to JOLTS job openings.

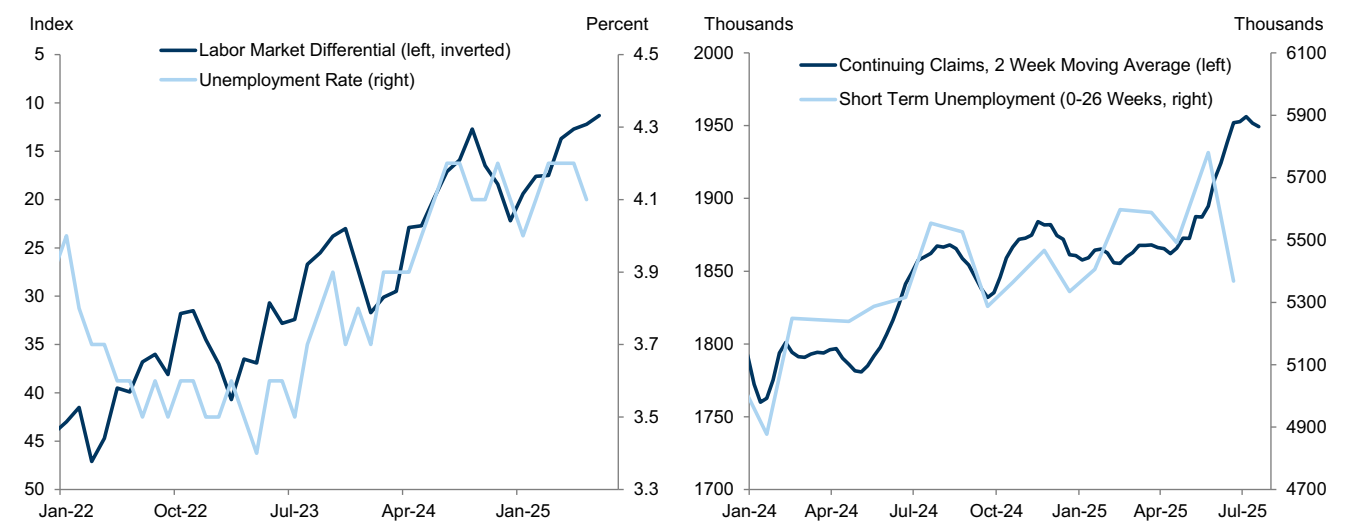
Source: Department of Labor, Indeed, LinkUp, Goldman Sachs Global Investment Research

The coming employment reports will provide timely evidence on the possible labor market effects of several government policies. First, tariffs could weigh on manufacturing payrolls in upcoming reports. Manufacturing employment declined by 5k per month on average in Q2 vs. -9k in 2024. Second, the reduction in force efforts led by the Department of Government Efficiency will directly lead to declines in federal government employment, and federal spending cuts might have spillover effects on state & local government, healthcare, and education. So far, we have seen a moderate impact from this channel: federal government employment has declined by 14k per month on average since February while state & local government, healthcare, and education hiring has remained elevated. Third, the slowdown in immigration could weigh on hiring in industries that disproportionately rely on immigrant labor. Job growth in the

industries most exposed to immigration policy changes declined to 7k on a three-month average basis through May (vs. 27k on average in 2024), the latest month for which payroll employment data is available at the detailed industry level. Tighter immigration policy could also keep some immigrants away from work, which would be visible in the household survey micro data. Data through June indicate that labor market outcomes for recent immigrants have remained healthy this year, though the response rate of recent immigrants to the household survey has declined.

We estimate that the unemployment rate rebounded to 4.2% on a rounded basis, reflecting the signal from other measures of labor market slack, such as the labor differential and continuing claims.

Exhibit 5: Measures of Labor Market Slack Increased on Net in July; We See Potential for a Rebound in Unemployment After It Disconnected from Other Measures Last Month



Source: The Conference Board, Department of Labor, Goldman Sachs Global Investment Research

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Disclosure Appendix

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