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US Economics | North America

Employment Report Preview: Slowed hiring, but no slower than last month

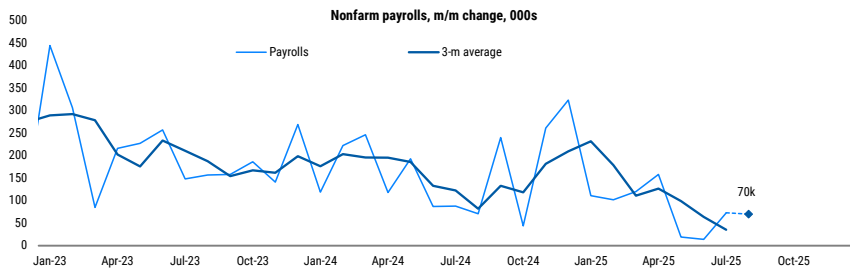
Payroll growth has slowed, but our 70k forecast for headline payrolls and 80k for private payrolls represents no further slowing in August. We expect no change in the unemployment rate, average hourly earnings +0.3%, and an unchanged workweek.

Exhibit 1: Employment forecast details

Employment Report: Forecasts & Recent History	Est.		Consensus		Actual	
	Aug-25	Aug-25	Jul-25	Jun-25	3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	70	75	73	14	35	71
Private payrolls	80	75	83	3	52	33
Unemployment rate (%)	4.2	4.3	4.2	4.1	4.2	4.2
Labor force participation rate (%)	62.2	62.2	62.2	62.3	62.3	62.7
Average weekly hours	34.3	34.3	34.3	34.2	34.3	34.3
Average hourly earnings (%M)	0.3	0.3	0.3	0.2	0.3	0.5
%Y	3.7	3.7	3.9	3.8	3.8	4.0

Source: Bureau of Labor Statistics, (BLS), Bloomberg, Morgan Stanley Research forecasts

Exhibit 2: We project payrolls rose 70k



Source: BLS, Morgan Stanley Research forecast

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Payrolls Forecast

Payroll growth has slowed, but our 70k forecast for headline payrolls and 80k for private payrolls represents no further slowing in August. We think that uncertainty around the 2Q tariff announcements steepened the slowing in employment growth, which then stabilized in July. Elevated uncertainty lowered the private-sector hiring rate throughout 2Q, but it bounced back in July. Continuing claims suggest a somewhat similar pattern, rising in April, but then rising no further. New jobless claims remain low. We do not expect that payroll growth is continuing to deteriorate as it did in 2Q.

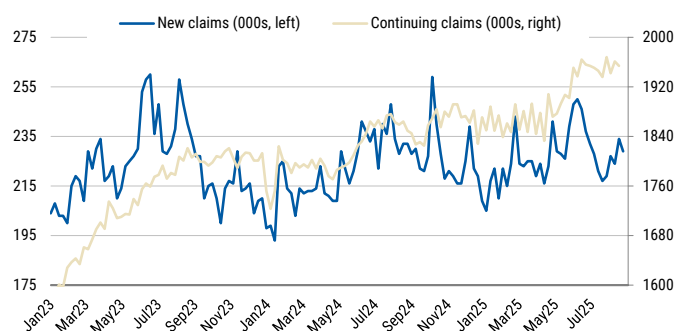
Details of the last employment report also suggested some stabilization: production hours worked began to rebound in July. Aggregate payroll earnings accelerated to a three month pace only a little slower than they had been running before the 2Q slowdown.

The JOLTS report mostly followed the same pattern. It included revisions weaker in 2Q, but some rebounds in July. The private-sector hires rate inched up in July, while the layoffs rate, revised up in June, was unchanged. At the same time, however, the job openings rate slipped in July. For the private sector, the job openings rate at 4.5% has declined a tenth from a month earlier and two tenths from a year earlier. This is still a healthy rate, but it does not suggest faster hiring ahead. The vacancy rate, at 1.0, has been slipping slowly to a cycle low.

Business surveys sent mixed signals for August payrolls: increases in S&P survey employment indexes from fairly healthy levels, but the ISM manufacturing employment index still weak.

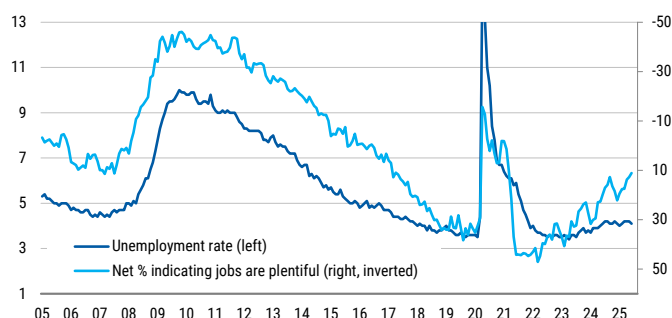
On net, claims, JOLTS data, and business surveys suggest softness but do not suggest a further sharp slowdown. Our 80k forecast for private payrolls is similar to July. Headline payrolls are again held back by federal employment: the federal hiring rate has stepped down and the layoff rate has picked up. Over the past six months, federal government payrolls have fallen an average of 10k to 15k per month. We're expecting that federal government layoffs do not rise sharply until the start of 4Q, the next fiscal year.

Exhibit 3: New and continuing jobless claims moved sideways, on balance, between early July and early August



Source: Department of Labor, Morgan Stanley Research

Exhibit 4: Households' labor market assessments deteriorated slightly in August



Conference Board, Morgan Stanley Research

Exhibit 5:

Industry breakdown of payrolls, and our forecast

	Average monthly change							
monthly change, 000s	4Q24	1Q25	2Q25		May	Jun	Jul	Aug est
Nonfarm	209	111	64		19	14	73	70
Private	177	100	68		69	3	83	80
Goods-producing	-6	6	-8		-13	-13	-13	0
Mining and logging	0	0	-1		-4	-1	-4	0
Construction	7	5	2		2	3	2	5
Manufacturing	-13	1	-9		-11	-15	-11	-5
Motor veh.	-2	-2	-1		3	-3	-2	
Service-producing	183	94	76		82	16	96	80
Wholesale	8	-1	-2		2	-8	-8	0
Retail	5	16	-8		-15	-14	16	5
Trans. & warehousing	18	6	-3		-1	1	4	0
Utilities	-1	1	1		3	0	0	0
Information	5	-2	1		2	0	-2	0
Financial	10	11	3		7	-2	15	10
Professional & business services	13	-10	-2		-23	-11	-14	0
Temp help	-1	-8	0		-15	-3	-4	
Education	2	2	-1		-2	-8	6	0
Health care, social assistance	79	62	70		72	59	73	60
Leisure & hospitality	37	-1	16		27	4	5	5
Other services	7	10	1		10	-5	2	0
Government	33	11	-5		-50	11	-10	-10
Federal	1	-7	-16		-26	-9	-12	-10
State and local	31	18	11		-24	20	2	0

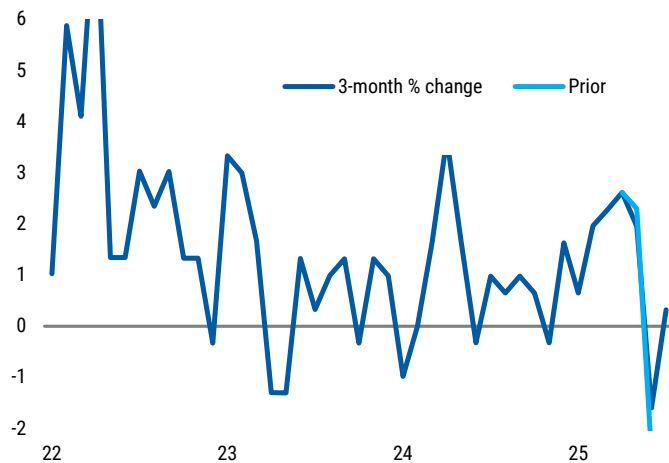
Source: BLS, Morgan Stanley Research forecasts

Hours and earnings

We expect the workweek, unchanged, and average hourly earnings, +0.3%, rise at about their recent pace. The 12-month pace of average hourly earnings falls 0.2 pct pt to 3.7%.

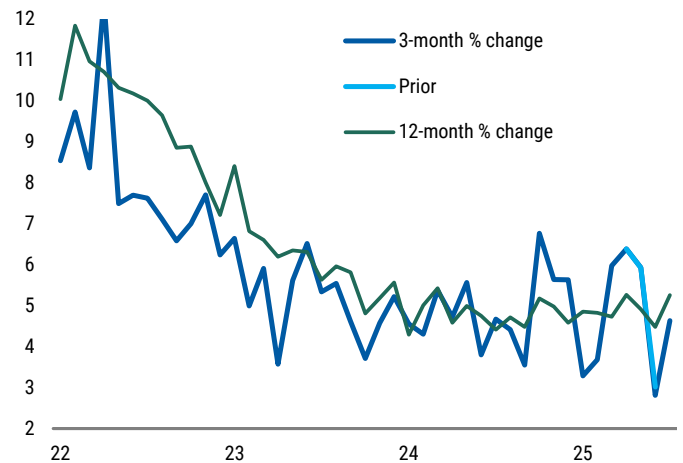
As noted, aggregate payroll earnings reaccelerated in July. At an 4.6% annual rate over the past three months, their rise was not much slower than the 4.9% pace last year. Their reacceleration does not suggest further sudden falloff in labor demand.

Exhibit 6: Production worker aggregate hours rebounded in July



Source: Bureau of Labor Statistics and Morgan Stanley Research

Exhibit 7: Aggregate payroll incomes rose at a 4.6% pace, only a little slower than the 4.9% pace last year



Source: Bureau of Labor Statistics and Morgan Stanley Research

Unemployment Rate and Labor Force Participation

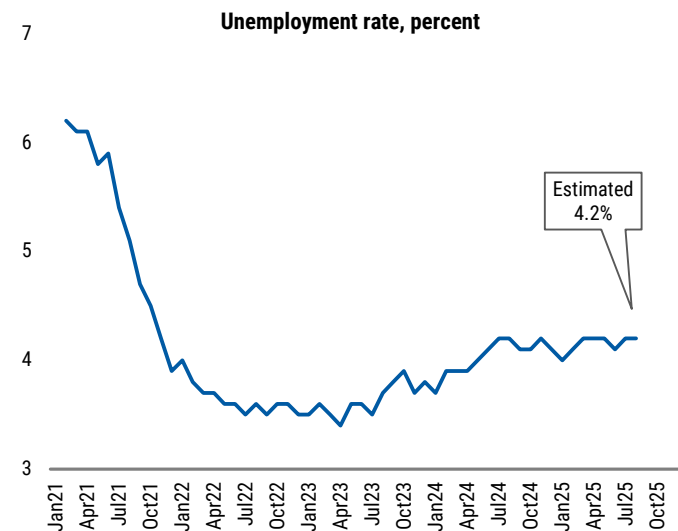
Despite the slowdown in payrolls, there's little sign of new slack. Nor do we expect that the unemployment rate rose in August.

Labor force growth has slowed because of slower immigration. Labor demand appears to have slowed in tandem, and the unemployment rate has moved sideways. There may be increasing downward pressure on the unemployment rate from labor force participation. The foreign-born participation rate, noisier than the overall participation rate over the course of a year, has been falling since March. The result has been an unemployment rate that was unchanged in July from a year earlier.

However, there were some hints of increased slack in the latest JOLTS report. The hires rate was down 0.1 pct pt from a year earlier (though it rose 0.1 m/m in July). The layoff rate was up a tenth from a year earlier (unchanged m/m). The job openings rate for July was down 0.2 pt from a year earlier (and down 0.1pt m/m). [Chicago Fed President Goolsbee had suggested focusing on these three plus the unemployment rate as a way of judging the labor market without the distorting effects of immigration on labor force growth.](#) He called them the four horsemen 'of labor market justice': A month ago, all still were unchanged from a year earlier. Now, after revisions, only the unemployment rate is unchanged over the past year. As such, they suggest some risk of increasing slack, though it is hard to judge from one month of JOLTS data.

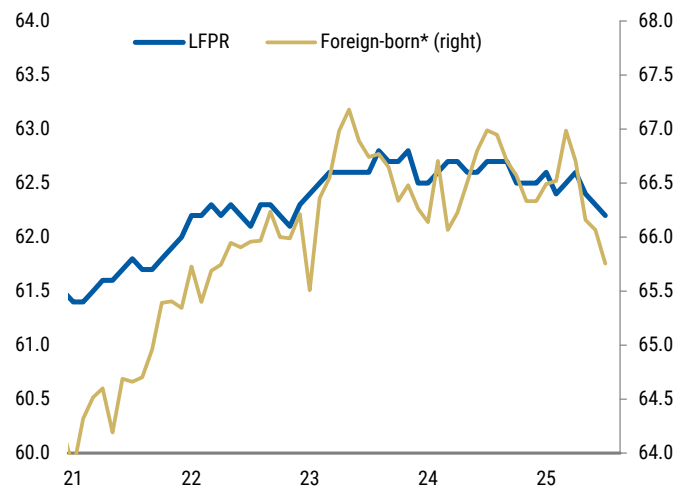
The vacancy rate (job openings/unemployment), too, has fallen a little more perilously. At 1.0 in July, it was approaching levels that in the past were associated with faster increases in the unemployment rate.

Exhibit 8: We forecast the unemployment rate unchanged at 4.2%



Source: Bureau of Labor Statistics, Morgan Stanley Research forecasts

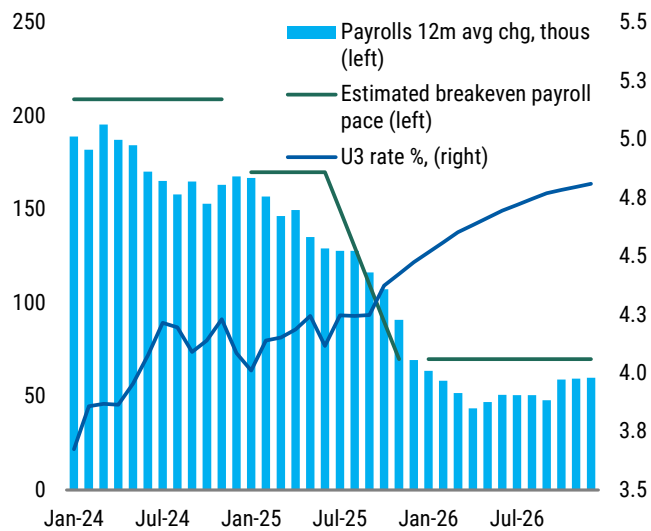
Exhibit 9: We expect labor force participation unchanged, but recent months suggest possible downward pressure from immigration



* Our seasonal adjustment.

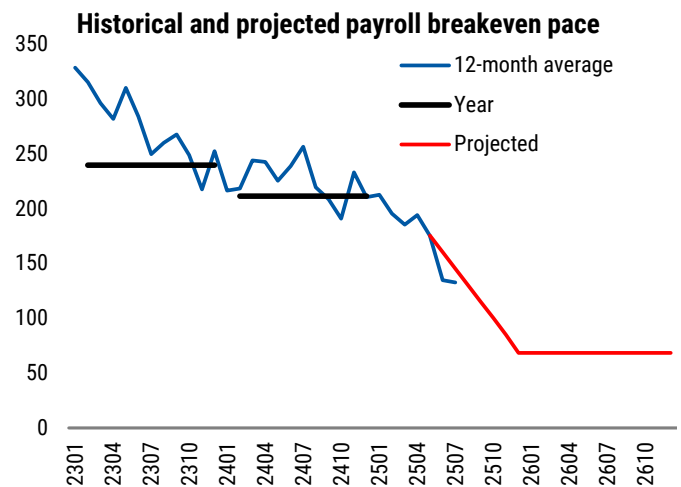
Source: BLS, Morgan Stanley Research

Exhibit 10: Breakevens and our labor market forecasts



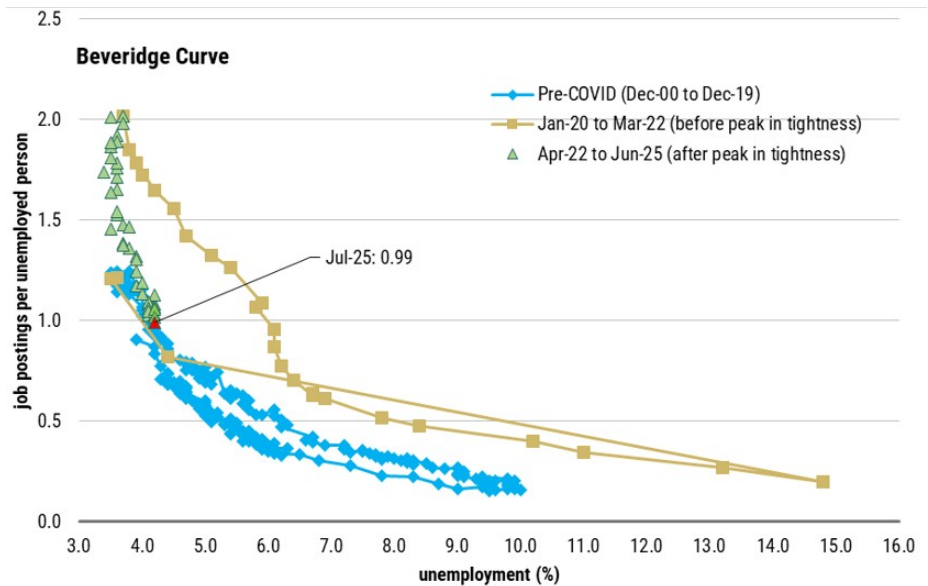
Source: BLS, Morgan Stanley Research

Exhibit 11: Breakevens have fallen at the pace we expect. By the end of the year, 70k per month in payrolls probably is consistent with flat UE rate.



Source: BLS, Morgan Stanley Research

Exhibit 12: The Beveridge curve suggests that job openings are getting closer to the danger zone, where declines in job openings lead to faster rise in the unemployment rate



Source: BLS, Morgan Stanley Research

CEW and the upcoming estimate of the benchmark revision

The Bureau of Labor Statistics (BLS) is scheduled to release its preliminary estimate of the annual payroll benchmark revision on September 9, 2025. [Through 4Q, CEW data \(the source of the revision\) suggested to us a downward revision of about 50k per month.](#) The CEW data are noisy, and the next three months could bounce back, and the later, final CEW data aren't incorporated into payroll data until February. But for now, we think the indication is another sharp downward revision to payroll growth.

The suggestion of slower payroll gains feeds into some concerns at the Fed. Chair Powell no longer appears quite as sanguine about recent slowing in payroll growth.

College grads

There has been concern about a recently weaker labor market for recent college graduates. Labor demand has weakened, slowing hiring. The unemployment rate for recent college graduates and for young people more generally has risen more than the overall unemployment rate. However, we do not find that the youth or recent college-grad unemployment rate has risen more than is typical when the overall unemployment rate rises. It is usual that, as hiring slows, new entrants to the labor force take the brunt of the slowdown. And looking over a longer period, the change in the unemployment rate between 2019 and now is the same for all young people as it is for recent college graduates. In short, their young- and recent-college-grad unemployment rates have risen, but they are not signalling any greater weakness than the rise in the overall

unemployment rate.

Consensus, and Risks

Upside risks: A payroll report strong enough to unwind the appearance of sharp weakening from the last report could change the chances of a rate cut at the upcoming FOMC meeting. A 225k rise, or a smaller one along with meaningful upward revisions, could keep the Fed on hold in September. In that scenario, the unemployment rate probably falls to 4.1%.

Downside risks: Private payrolls below zero would exacerbate Fed fears, representing continued sharp deterioration and raising the chances of a 50bp cut. The unemployment rate probably rises to 4.4%.

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