July jobs report: Unemployment rate jumps to 4.3%, job gains total just 114,000 as labor slowdown deepens

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·Reporter
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The US economy added fewer jobs than expected in July, while the unemployment rate unexpectedly rose to its highest level in nearly three years, the latest sign of a broader summer slowdown in the US labor market.

Data from the Bureau of Labor Statistics released Friday showed the labor market added 114,000 nonfarm payroll jobs in July, fewer additions than the 175,000 expected by economists.

Meanwhile, unemployment rose 4.3%, up from 4.1% June. The unemployment rate is now at its highest level since October 2021. July's job additions came in lower than the 179,000 jobs added in June.

Notably, the BLS said Hurricane Beryl had "no discernible effect" on the employment data for July.

Wage growth, an important measure for gauging inflation pressures, slowed to 3.6% year over year, down from 3.9% in June. On a monthly basis, wages increased 0.2%, lower than the 0.3% gain seen in June. Friday's report also showed the labor force participation rate rose slightly to 62.7% from 62.6% in June.

In a client note on Friday, Stephen Brown, the deputy chief North America economist at Capital Economics, reasoned this report will likely change the Fed's thinking about cutting interest rates in September.

"The sharp slowdown in payrolls in July and sharper rise in the unemployment rate makes a September interest rate cut inevitable and will increase speculation that the Fed will kick off its loosening cycle with a 50 bp cut or even an intra-meeting move," Brown wrote.

Markets swiftly shifted Friday morning to price in a roughly 70% chance the Fed cuts rates by 50 basis points at the end of its September meeting, according to the CME Group. Just a week ago, there was only an 11.5% chance of the Fed cutting rates by this much.

Friday's report is also the latest economic data point to show signs of cooling across the US economy. Data from the Department of Labor published Thursday showed 249,000 initial jobless claims were filed in the week ending July 27, up from 235,000 the week prior and the most since August 2023.

This followed a report earlier this week that showed a decrease in job openings as of the end of June, while hirings fell and quits hit their lowest level since November 2020.

The confluence of data sparked a market sell-off on Friday as the 10-year Treasury yield tumbled to its lowest level since February, hovering near 3.86%.

Stocks extended steep losses from Thursday on Friday morning. The S&P 500 (^GSPC) was down more than 1% while the Nasdaq Composite (^IXIC) slid closer to 2%.

Sahm Rule sparks recession watch

The unemployment rate hitting 4.3% also triggered the Sahm Rule, which measures the three-month average of the national unemployment rate against the previous 12-month low. The rule is triggered when unemployment rises 0.5% from that level and has successfully predicted recessions 100% of the time since the early 1970s.

Economist Claudia Sahm, the rule's namesake, told Yahoo Finance on Friday that unique dynamics in the post-pandemic labor market may render the rule less useful in calling a recession this time around.

Sahm said she doesn't believe the US economy is in a recession right now, sighting resilient consumer spending as one reason. Still, Sahm added, the softening in the labor market is "worrisome" and could point to a recession in three to six months.

"We should be very concerned," Sahm said.

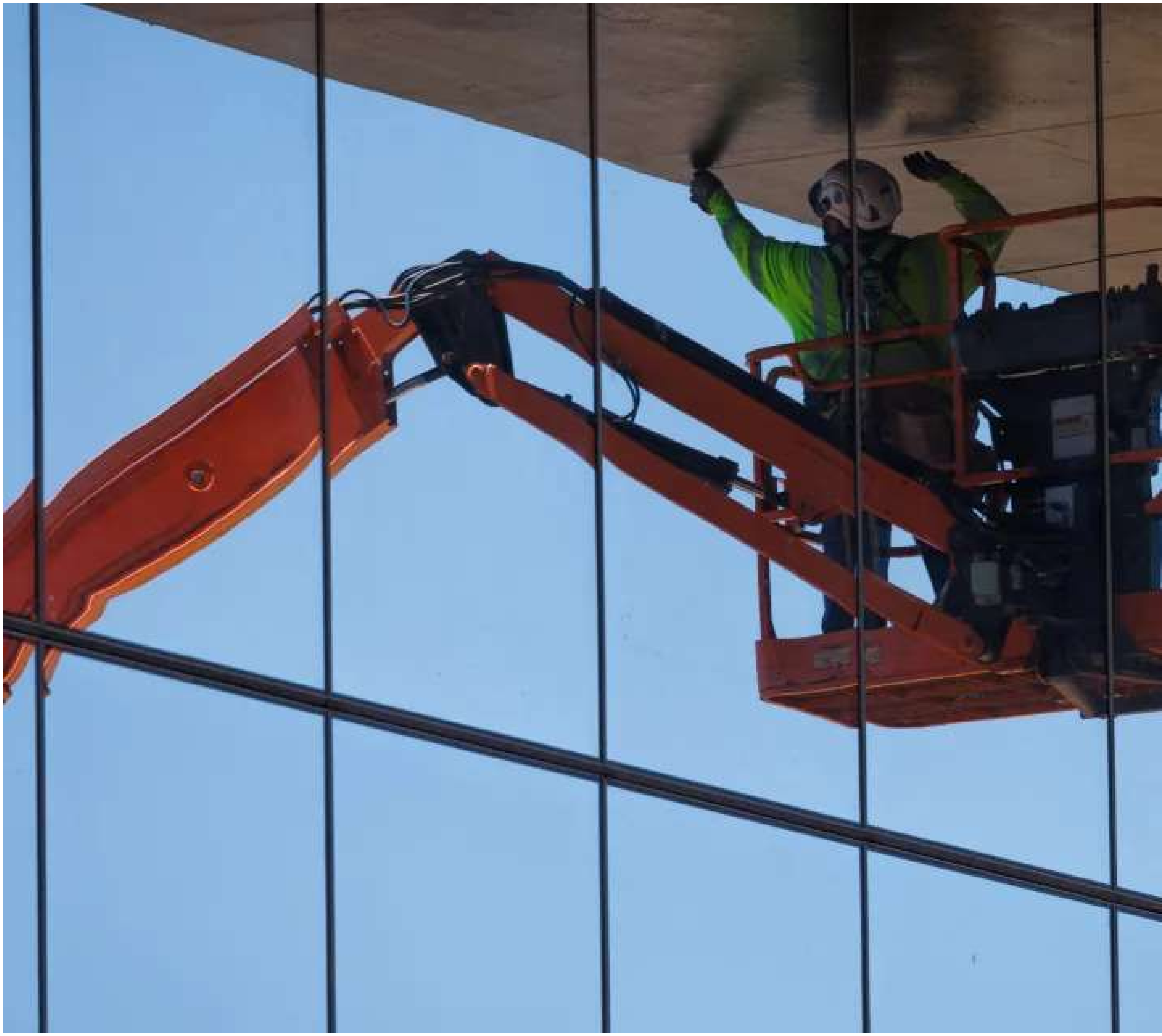
The key, Sahm maintains, will be the Fed lowering interest rates.

Asked whether he was worried about the Sahm Rule being triggered at a press conference on Wednesday, Federal Reserve Chair Jerome Powell said, "The question really is one of are we worried about a sharper downturn in the labor market. The answer is we are watching carefully for that."

He characterized the rule as a "statistical regularity," adding, "It's not like an economic rule where it's telling you something must happen."

Powell also said the Fed is now more attentive to not only the risk of inflation *not* falling, but also the risk of unemployment continuing to tick higher. For now, Powell said the Fed still believes the labor market is in the process of a "gradual normalization."

"If we start to see something that looks to be more than that, then we're well positioned to respond," Powell said.


A construction worker works in the shade of a building as he keeps out of the sun and hot weather during the construction of a large office complex in the biotech sector of San Diego, Calif., July 2, 2024. (REUTERS/Mike Blake) (REUTERS / Reuters)

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