Economic Indicators Analysis

10 August 2026

US Labour Market Weakened Amid an Unexpected Decline in Payrolls

Summary:

- Nonfarm payrolls fell by 23k in July, while job gains for May and June were revised down by a combined 103k.
- The unemployment rate edged down to 4.1%, but underlying conditions were mixed.
- A softer labour market is likely to complicate the Fed's near-term policy trajectory, prompting markets to scale back expectations of a September rate hike.

The US labour market weakened significantly in July, breaking from its previously steady trend as payrolls unexpectedly contracted. Nonfarm payrolls fell by 23k during the month, sharply missing market forecasts. The weakness was further magnified by steep downward revisions to the prior two months. Total job gains for May and June were revised downward by a combined 103k, with June's previously reported 57k gains lowered to just 20k. This highlighted emerging softness in the labour market heading into 2H 2026. Job losses in July were heavily concentrated in local government education (-50k), retail trade (-19k), and the financial sector (-14k). However, part of the declines may have reflected temporary factors, including school holidays and a post-World Cup pullback. Meanwhile, the healthcare and construction sectors remained a bright spot, with each adding 22k jobs.

The headline unemployment rate ticked down from 4.2% to 4.1% in July. Despite this headline improvement, the household survey data painted a concerning picture of underlying workforce dynamics. While the number of unemployed workers fell by 178k, total employed workers also declined by 87k. In addition, the labour force participation rate continued its downward trend to 61.4% in July, down by 0.7 percentage points since January and reaching the lowest level since 2021. This indicates that the headline unemployment rate edged down mainly because of a decrease in the labour force (-264k) rather than an increase in employment.

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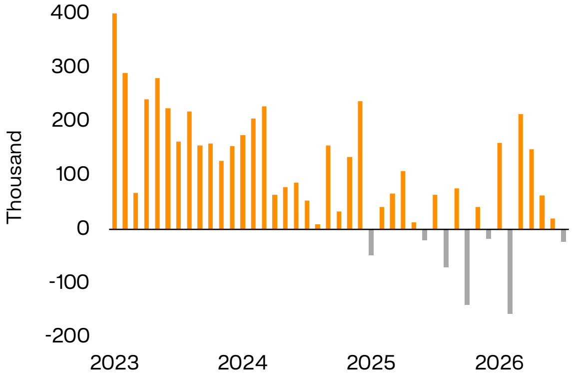
Change in non-farm payrolls

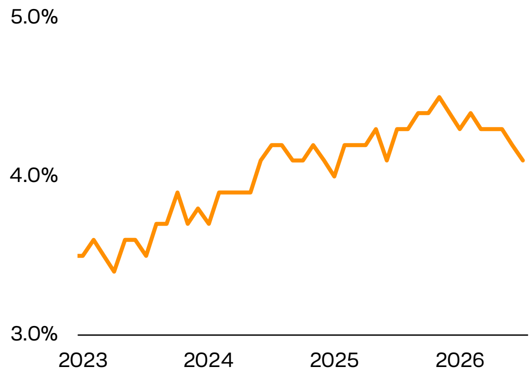


Source: CEIC

Nonfarm payroll revisions		
Month	June Jobs Report	July Jobs Report
May	129,000	63,000
June	57,000	20,000
July	n/a	-23,000

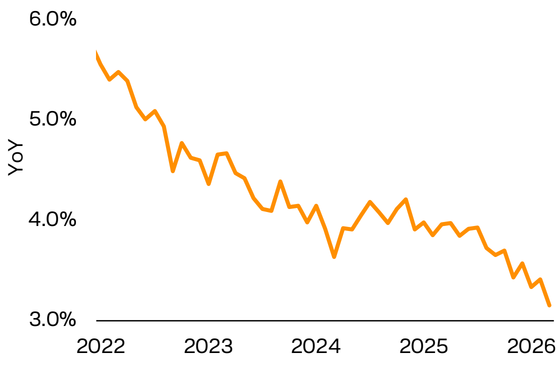
Wage growth moderated further. Average hourly earnings (AHEs) were USD 37.62 in July, representing a month-on-month (MoM) rise of just 0.1%, compared to 0.3% growth in the previous month. On a year-on-year (YoY) basis, growth in AHEs also slowed to 3.2% from a revised 3.4%, continuing a gradual moderating trend from levels above 3.5% in early 2026. The data suggested further easing in wage-driven inflationary pressures.

Unemployment rate



Source: CEIC

Growth in average hourly earnings



Source: CEIC

July's negative payroll print is likely to complicate the Fed's near-term policy trajectory. Prior to the release, a resurgence in headline inflation driven by renewed energy shocks amid heightened Middle East tensions had intensified market expectations for Fed rate hikes. However, with payrolls declining and wage growth moderating in the July job report, the balance of risks has shifted from being focused solely on inflation to encompassing employment concerns as well. This shift prompted markets to scale back expectations for a September rate hike. Looking ahead, we still anticipate the Fed to hike rates once in 2H 2026, but it will depend on the path of inflation and when global energy prices return to more normal levels.

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