Jobs decline 23k, unemployment falls, in odd July jobs report

Headlines

Brian LeBlanc
brian.leblanc@pnc.com

PNC Economics
economics@pnc.com

- **The U.S. economy *shed* 23k jobs in July versus an expectation of +85k** in a very soft July jobs report. Job growth in June and May was also revised down by a total of 103k jobs, bringing the **three-month average of job growth down to just 20k.**

- **Job losses were concentrated in local government (-57k) and leisure/hospitality (-40k),** which are two sectors that experience the largest seasonal hiring swings during the summer months. It's very possible that some of the weakness in July is overstated based on this, but it's hard to not see this as a disappointing jobs report regardless.

- **Surprisingly, even with outright job losses, the unemployment rate declined to 4.1% in July.** Slower net immigration and weaker labor force growth have significantly lowered the bar for what level of job growth is needed to push down the unemployment rate. We estimate that level is around 30k jobs/month, maybe even lower.

- **The labor force participation rate stayed flat at 61.4%** but is down a full percentage point from last year. As we detail below, we think this is less indicative of new or emerging stress in the labor market than it is the household survey gradually catching up to the sharp slowdown in population growth over the past few years.

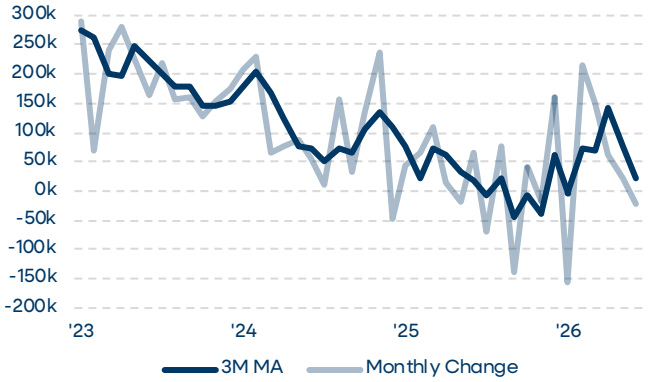
- Wage growth was weak at just 0.1% m/m, bringing the year-over-year growth to 3.1%., close to pre-pandemic levels. **There is little evidence that the labor market itself is a meaningful source of inflation pressure today.**

- **What does this mean for the Fed?** Odds of a September rate hike fell from around 60% to below 40% after the release. The labor market is clearly not overheating, nor does it appear to be a source of inflation. This should provide some support for FOMC officials who would prefer to keep rates unchanged, however **next week's CPI print will be far more important in determining whether the Fed hikes rates in September.**

Jobs decline 23k with big revisions...

The U.S. economy shed 23k jobs in July versus and expectation of +85k. Perhaps more importantly, job growth in May and June were revised down a cumulative 103k, which takes out much of the momentum in job growth we've seen in the late-spring and early-summer months of 2026. The three-month moving average of job growth fell to just 20k per month.

Figure 1: Nonfarm payroll job growth



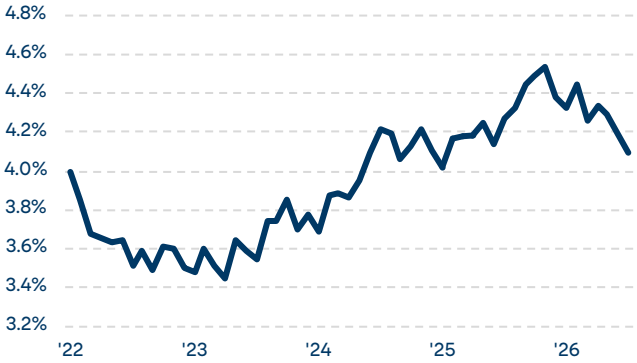
Sources: BLS, PNC

Job losses were concentrated in local government (-57k) and leisure/hospitality (-40k), which are two sectors that experience the largest seasonal hiring swings during the summer months. It's very possible that some of the weakness in July is overstated based on this, but it's hard to not see this as a disappointing jobs report when taking into consideration downward revisions to prior months. Across the summer payroll reports, there was virtually no positive impact from the World Cup on leisure/hospitality job growth (which is odd), another factor suggesting some of the July weakness could be attributable to seasonal adjustment issues.

... but the unemployment rate falls to 4.1%

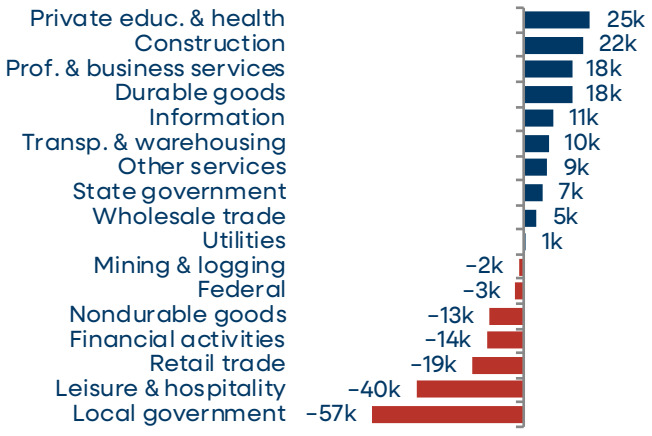
Despite the outright decline in job growth, the unemployment rate fell to 4.1%, it's lowest level since early 2025. Slower net immigration and weaker labor force growth have significantly lowered the bar for what level of job growth is needed to push down the unemployment rate. We estimate that level is around 30k per month currently, possibly even lower.

Figure 2: Unemployment rate



Sources: BLS, PNC

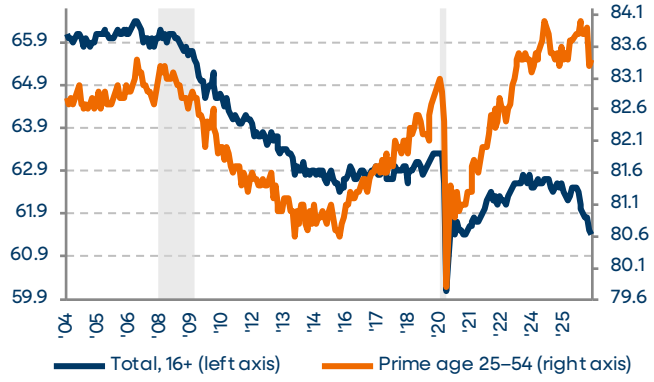
Figure 3: July job growth ranked by sector



The labor force participation rate stayed flat at 61.4% but is down a full percentage point from the end of last year. However, looking at June's microdata from the household survey, it

appears that the majority of the weakening in participation over the past coming months is coming from survey turnover rather than any deterioration in respondents surveyed in adjacent months. In other words, the lagged weakening in the labor market in 2024 and 2025 now appears to be showing up as weaker participation, just with a lag.

Figure 4: Labor force participation rate (%)



Sources: BLS, PNC

Wage growth weak, this is not an inflationary labor market

Wage growth remained subdued in July, rising just 0.1% m/m and slowing to 3.1% year-over-year, roughly in line with pre-pandemic norms. Despite the decline in the unemployment rate, there is little evidence that the labor market is generating meaningful inflation pressure today. If anything, the continued moderation in wage growth should ease concerns among Fed officials that labor-market conditions could complicate the ongoing disinflation process.

September hike odds fall below 50%, but next week's CPI print will be more impactful

Odds of a September rate hike fell from around 60% to below 40% after the release. The labor market is not overheating, but unless this report is more trend than outlier, it appears stable enough for the Fed to focus primarily on the inflation side of its mandate. Next week's CPI print will be far more important in determining whether the Fed hikes rates in September.

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