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UNITED STATES

US rate hike talk cools on softer jobs data

US job creation slowed after a decent three-month run while the unemployment rate fell, but this was primarily due to worker disengagement with more than 700,000 leaving the labour force. A disappointing outcome that has taken the wind out the sails for calls for imminent rate hikes. A soft July CPI report should boost the case for a prolonged Fed pause



US job growth was weak in June

57,000

US jobs added in June

Lower than expected

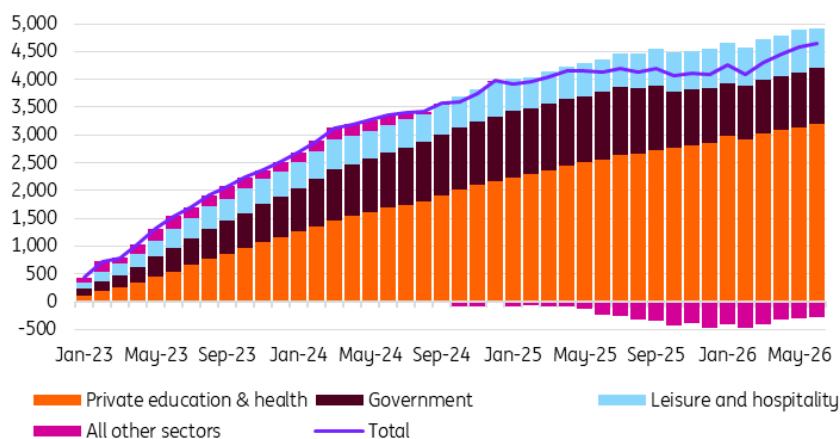
Weak jobs growth, unemployment rate falls for bad reasons

The June US jobs report led with a softer-than-expected non-farm payroll growth number of 57,000 (consensus 113k) with 74,000 downward revisions to the past two months. The

unemployment rate dipped to 4.2% from 4.3%, but this was primarily caused by a big drop in the participation rate to 61.5% from 61.8% – ie not a good reason since it highlights worker disengagement. In fact, the details show the number of people employed falling by half a million, while the number of people unemployed fell 213k, meaning more than 700k left the workforce. Worryingly, the bulk of the pain was seen in prime age workers – those aged 25–54 – where the participation rate fell from 83.9% to 83.3%. Wage growth was in line at 0.3% month-on-month or 3.5% year-on-year.

In terms of non-farm payrolls, the private sector was particularly subdued, rising only 49k, with private education/healthcare services yet again the only source of strength, rising 69k. This sector has cumulatively accounted for 70% of all the jobs created in the United States since December 2022 – a remarkable degree of job concentration. Leisure and hospitality has been another key sector for job creation in recent years, but not in June. Employment fell 61k, which is a major surprise given the World Cup is on and bars and the venues themselves are busy. Employment in this sector had increased by 44,000 in May, so it may be that business owners had thought there might be even more excitement about what was going on and have been left disappointed.

Cumulative job creation since December 2022 (000s)



Source: Macrobond, ING

Inflation is the Fed's focus, but better news is coming here

Non-farm payroll growth averaged just 8,571 per month between January 2025 and February 2026, but there was a decent uptick over the March-May period when payrolls increased 164k on average. Today's number suggests that this was not necessarily the start of a new trend and takes some out of the wind of the sails for the call for imminent rate hikes. However, Federal Reserve Chair Kevin Warsh has made it clear that inflation is the Fed's focus right now, so market reaction is somewhat muted, with cumulative hikes by December now amounting to 31bp versus 37bp just before the data was published. The 14 July consumer price inflation data should show MoM prices falling due to the steep drop in gasoline prices and that will likely

have more of an impact on investor psychology. We continue to favour a prolonged pause from the Federal Reserve rather than expect a 2026 rate hike.

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