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EcoFlash

United States: lackluster summer employment data will prompt the Fed to act

The August Employment Situation featured weak payroll growth and a rise in the unemployment rate. The release confirmed the downside risks surrounding the US labour market. The FOMC is expected to lower the Fed Funds Target Range (-25 bps) for the first time in 2025 at its 16-17 September meeting.

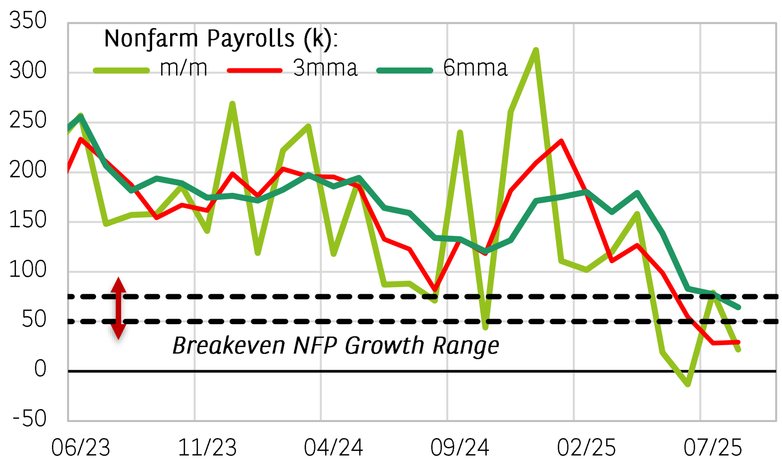

Chart: Sharp decline in nonfarm payrolls (Source: BLS, BNP Paribas)

Nonfarm payrolls (NFP) further weakening: in August, they came in lower than expected and dropped to +22k (consensus: 75k) from +79k in July. **The data extended the downward trend, with 3- and 6-month moving averages (29k and 64k) at their lowest levels since 2010[1]. The weakness of the NFP, which fell below our estimate of the breakeven threshold allowing unemployment rate's steadiness (50k – 75k), triggered an increase in the latter to 4.3%, its highest level since October 2020, taking it above its equilibrium level (4.2% according to the Fed).** Meanwhile, the labour force participation rate rose for the first time since April, albeit slightly (62.3%, +0.1pp). Wage growth was stable on a monthly basis (+0.3% m/m) but slowed slightly year-on-year (3.7%, -0.2pp). Finally, the first data released after the dismissal of Erika McEntarfer, former director of the Bureau of Labour Statistics (BLS), did not give rise to any significant revisions for previous months (a cumulative total of -21k for June and July).

FOMC, time to take action: The report confirmed the sharp slowdown in the labour market and, *ipso facto*, the rebalancing of risks towards the 'maximum employment' component of the dual mandate. At the same time, it did not suggest a sharp increase in the likelihood of an economic downturn. **Under these circumstances, a 25bps cut in the Fed Funds target range should result from the FOMC meeting on 16-17 September.** This maiden 2025 cut would bring the target range to +4.0% - +4.25%. While we still expect inflation to accelerate in the coming quarters, the sharp softening of the labour market bolsters the case for a temporary rise, a view that is gaining traction within the FOMC. At the same time, the August ISM survey confirmed, in both the manufacturing and non-manufacturing subcomponents, tensions on both sides of the dual mandate with hiring in contraction and prices paid on the rise. Lastly, August CPI inflation, due on 11 September, will be the last key release before the FOMC meeting. **We anticipate an increase in headline inflation to +2.9% y/y (+0.2pp)**, while less vigorous reading could increase pressure for a larger rate cut.

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[1] Excluding the Covid-19 pandemic.