Choreo

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Market Perspectives: Is the Employment Landscape Shifting?

MARKET PERSPECTIVES: IS THE EMPLOYMENT LANDSCAPE SHIFTING?

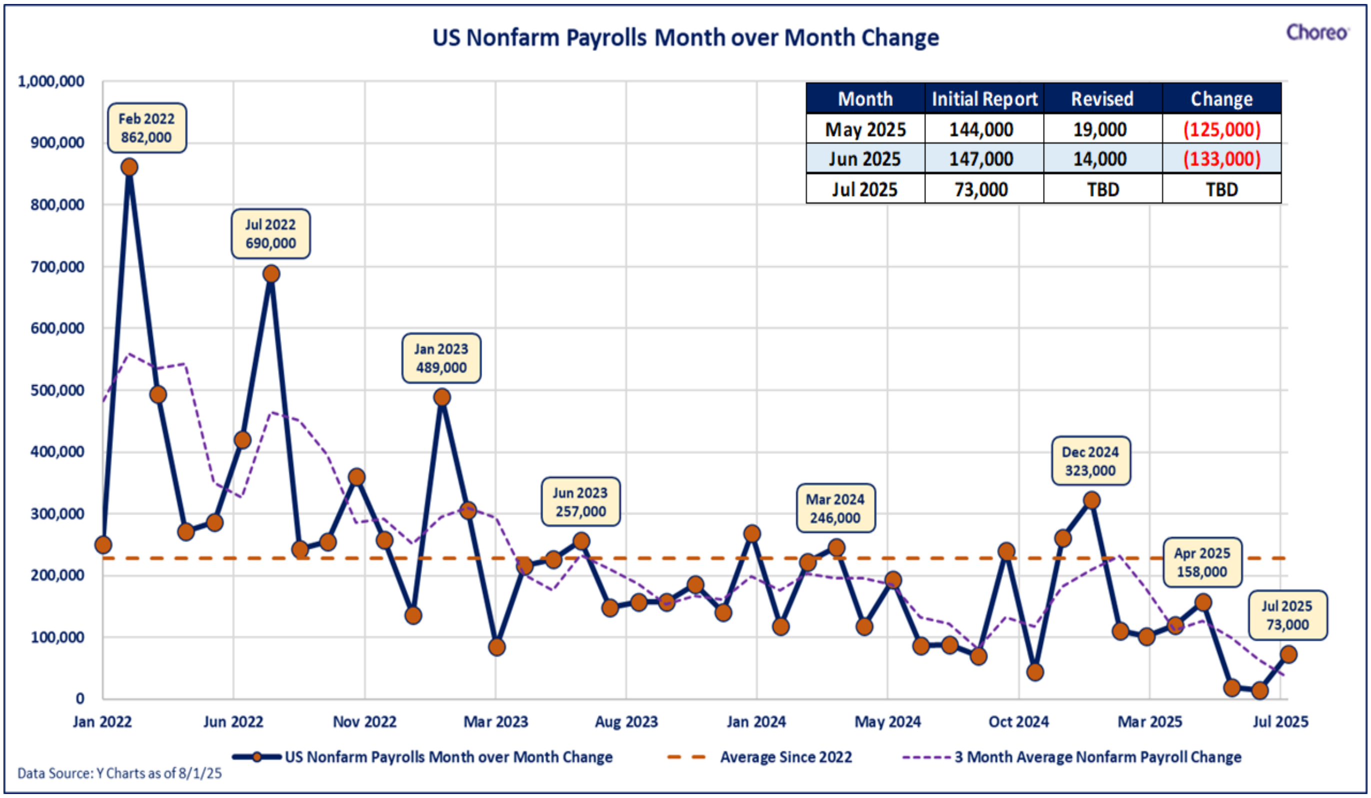
"Choose a job you love, and you will never have to work a day in your life."

~ Confucius

- Over the past five years, U.S. consumers have remained remarkably resilient, continuing to spend despite a steady stream of headwinds.
- That resilience has been underpinned by a strong labor market, keeping most Americans employed and positioned to spend since the pandemic recovery.
- With a recent string of weaker labor data, is the consumer still in a position to carry the economy forward?

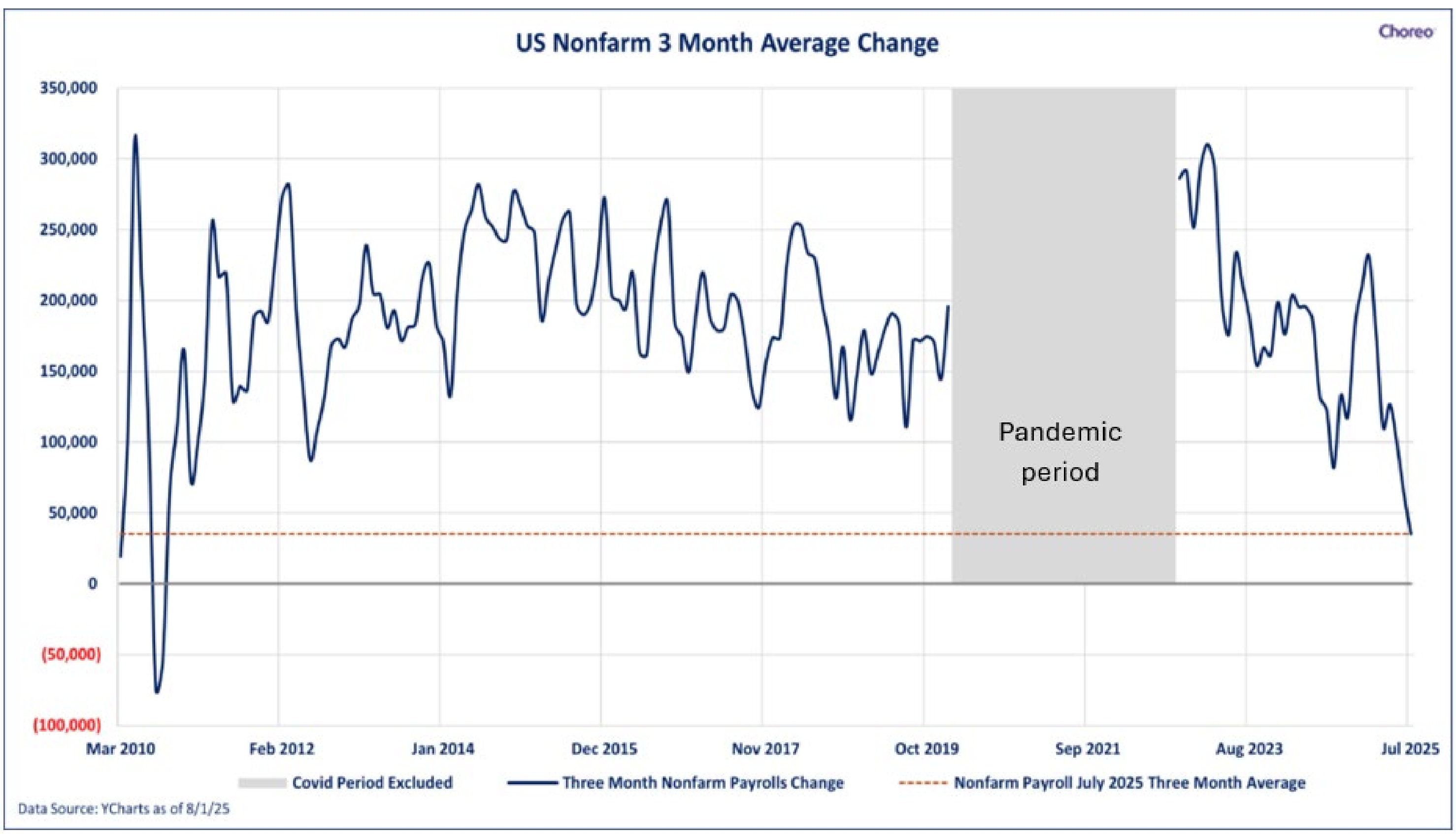
"Never bet against the U.S. consumer." It's a phrase we've heard often over the past five years, a period marked by a global pandemic, political polarization, shifting fiscal and monetary policy, and persistent inflation. Yet through it all, U.S. consumers have continued to spend on goods and services, helping to anchor the economy, of which they represent approximately two-thirds. And as long as Americans expect to earn relatively steady and growing wages, they likely will continue to spend, providing ongoing economic growth support.

After two years of gradual labor market rebalancing (from historically strong conditions to more normal ones), the outlook is now less certain following a series of unexpectedly weak labor data reports. Namely, downward revisions of nonfarm payroll figures for May and June (provided by The Bureau of Labor Statistics) totaling 258,000 suggests that the pace at which the labor market is decelerating may be somewhat faster than previously thought (see graph below), though overall labor market dynamics remain strong, as we'll review below. Typically, families with expectations of stable employment and future cash inflows are more likely to spend, particularly on discretionary goods and services. However, if the labor markets begin to stall, leading workers to question the steadiness of future income, economic weakness could ensue.

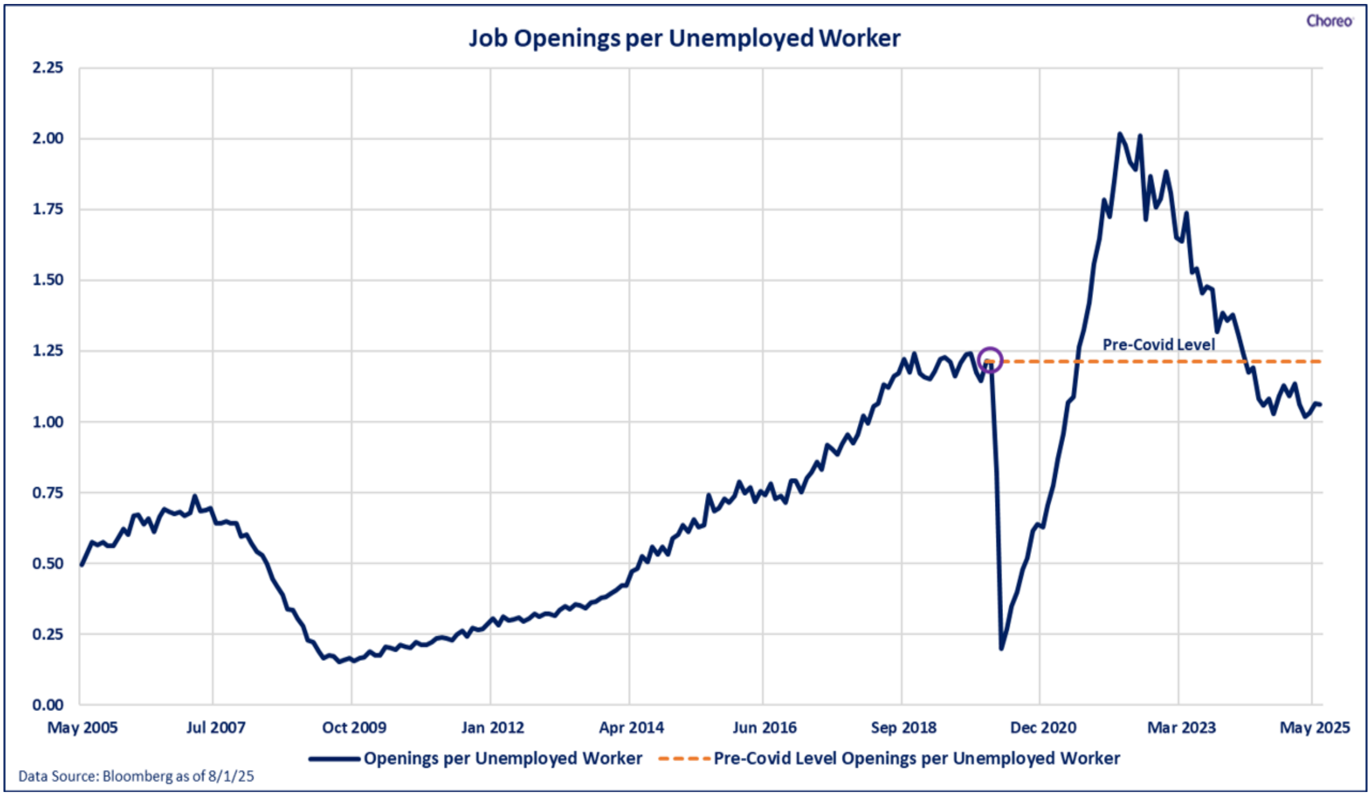


Month	Initial Report	Revised	Change
May 2025	144,000	19,000	(125,000)
Jun 2025	147,000	14,000	(133,000)
Jul 2025	73,000	TBD	TBD

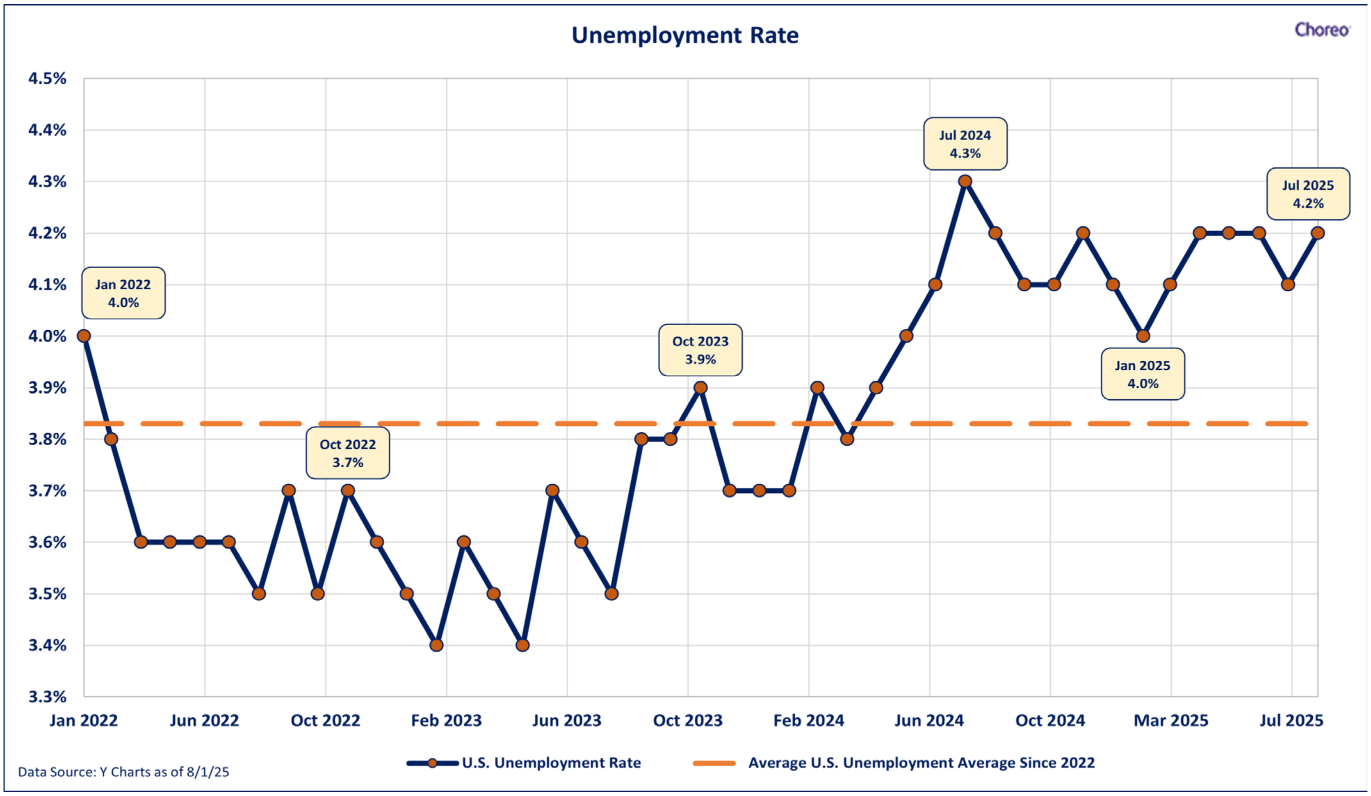
Incorporating the lower revised numbers for May and June of 2025, coupled with a July figure that fell short of consensus expectations, puts the trailing three-month average (May - July) for new nonfarm payroll additions at 35,000. Excluding the Pandemic (which is shown in gray below), this has been the lowest figure in 15 years.



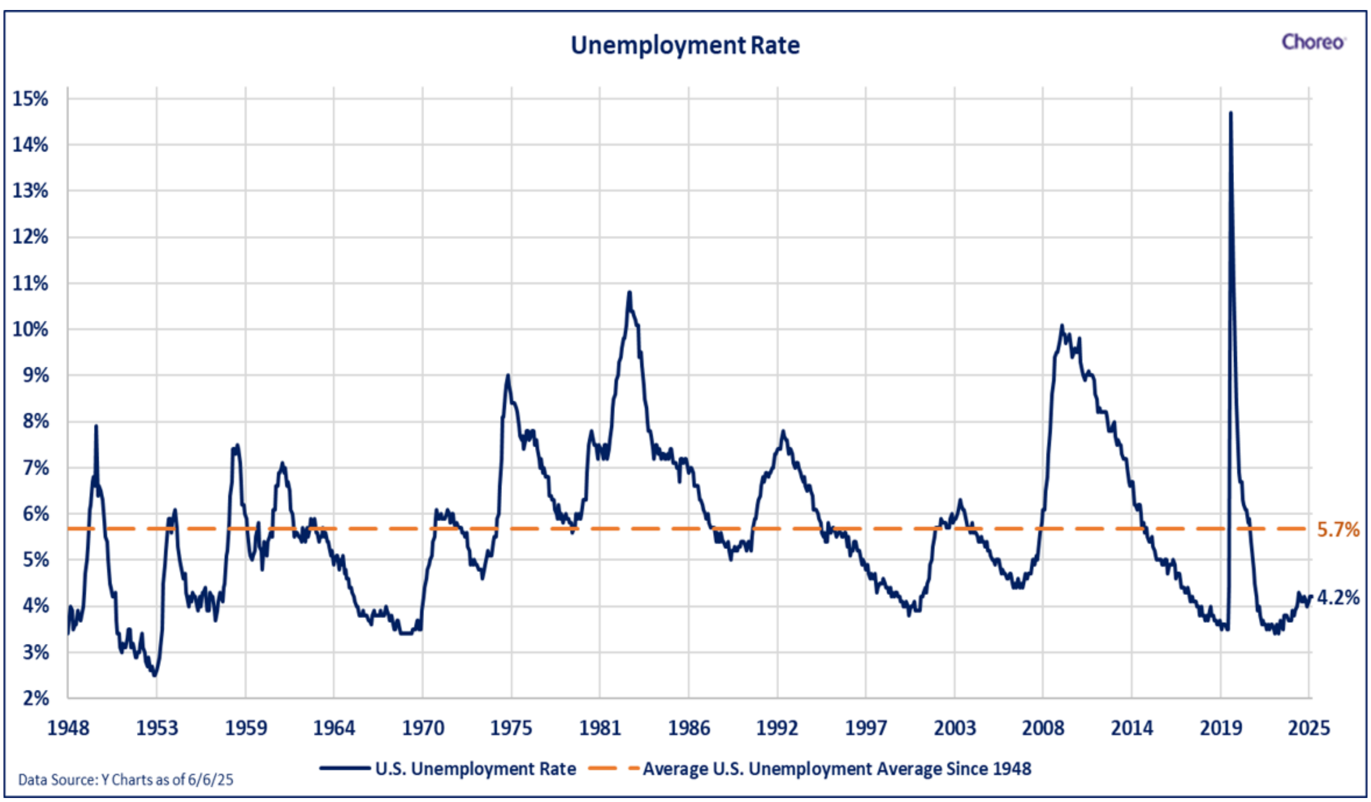
Economic data can be difficult to measure and is often based on imprecise or even outdated methodologies, so revisions are common and not generally concerning. What matters more is the direction of the trend. While nonfarm payroll gains have slowed to cycle lows, other indicators (like the job openings rate) suggest the labor market has shifted from historically strong toward a more typical environment. At the peak, there were approximately two job openings per unemployed worker. This figure has dipped to below pre-pandemic levels and now stands at approximately one job available for each worker. This is not a signal of labor market weakness, but rather a change in trend, and may even be a normalization.



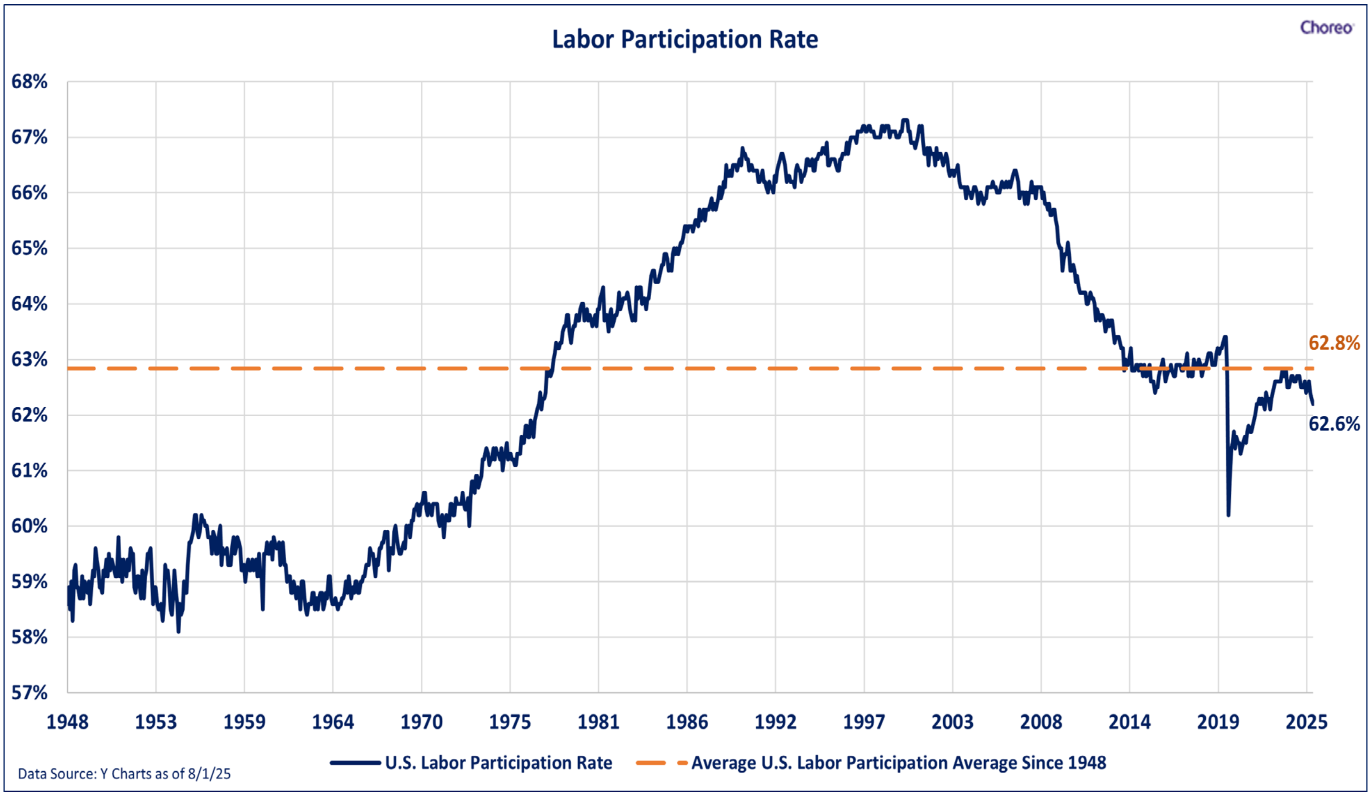
Similarly, the unemployment rate has edged higher in recent months but remains broadly consistent with historical norms. While it's no longer at cycle lows, it still reflects a labor market that remains on solid footing despite fewer job openings and slowed hiring. This demonstrates that labor conditions generally lag economic conditions and can change relatively quickly.



When viewed from a longer-term perspective, the recent uptick in unemployment barely registers in the chart below, and the current rate remains comfortably below the long-term average and well within the Fed's generally accepted range.

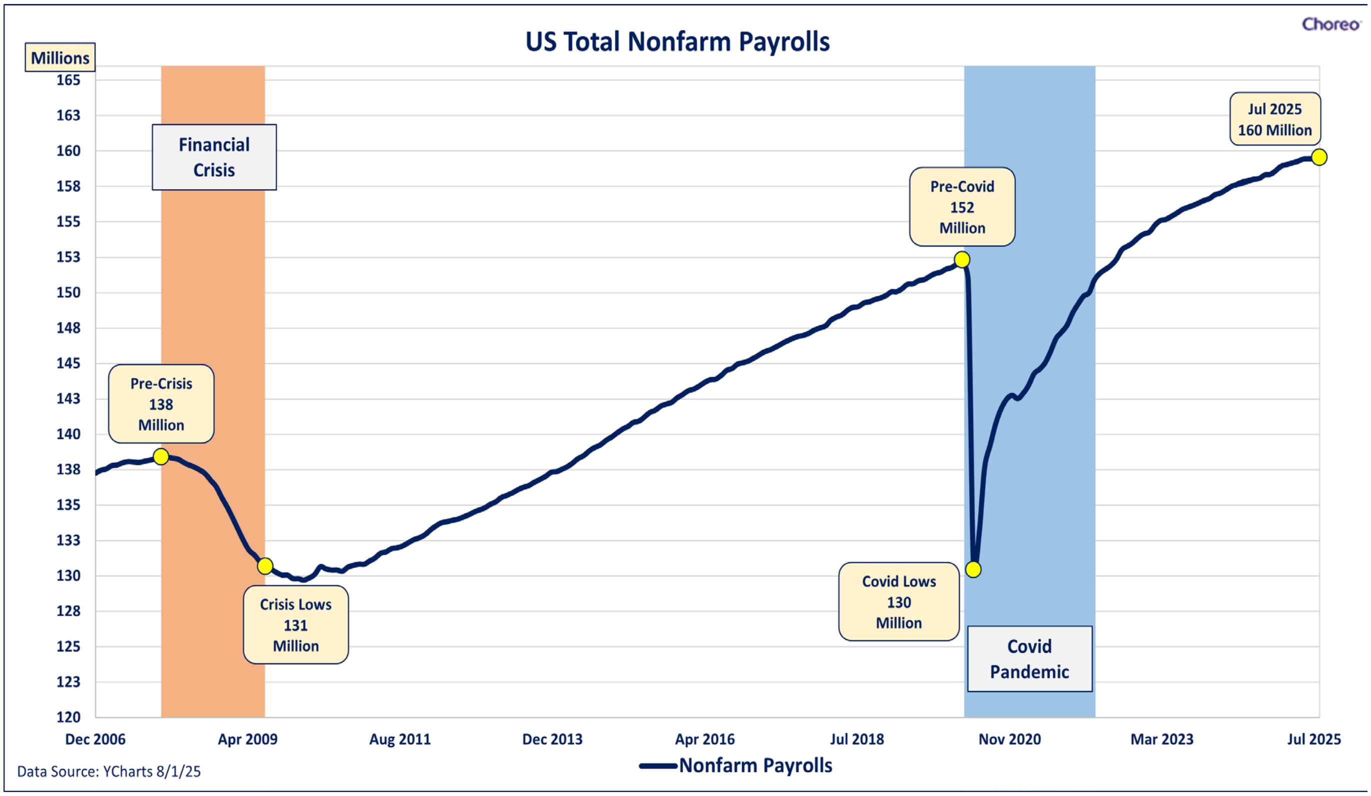


The unemployment rate may also be influenced by shifts in the labor force itself, a dynamic that's complex and constantly evolving. A combination of baby boomer retirements, changing immigration policies, and broader demographic trends are likely contributors. While it's an important factor to monitor through the rest of 2025 and beyond, the overall labor force participation rate remains in a gradual downtrend that began several decades ago.



Future Labor Market Trends

The world has changed very rapidly since March of 2020 when the COVID pandemic took over life as we knew it. Technological advances were prioritized and expedited as businesses, schools, and consumers were forced to quickly adapt to work from home and maintain social distancing. A wide variety of pre-Covid activities were impacted, and many businesses have not fully recovered. Before Covid, U.S. nonfarm payrolls were roughly 152 million, declining dramatically soon thereafter only to return to pre-Pandemic trends as shown in the graph below; one indicator of the resilience of the U.S. economy.



Major factors which could impact labor markets going forward include:

1. **<u>Government Employment:</u>** Government resources are stretched with growing deficits and national debt reaching new highs. Regardless of which party is in the White House or in control of Congress, these spending numbers may be challenging in the years to come for labor markets as the Federal (and State) Governments fight to balance budgets and limit large deficit spending.
2. **<u>Artificial Intelligence ("AI"):</u>** Most experts agree that we are in the early stages of a revolution, not simply an evolution, of technology and its capabilities in today's world. Much of this technological progress (television, transportation, internet and other digital and/or automated tools) has already significantly altered the way we live, work and thrive. AI has the potential to accelerate technological advancement impacting virtually every aspect of human engagement, including the labor force. On the positive side, workers will likely become more efficient and AI will almost certainly create new jobs and perhaps even new types of jobs. On the other hand, businesses will eventually be able to utilize this efficiency to potentially replace human workers in various functions that exist today. This scenario is not uncommon and has occurred for generations. As an example, years ago the typewriter (now virtually unknown to younger Americans) was the primary tool for written communication, yet we now have computers with shared files and the internet (including AI "helpers" like ChatGPT) to make writing, editing and collaboration easier and more efficient. While the job losses may significantly impact development and utilization of new technology (potentially creating a rise in unemployment), history tells us we may be able to expect offsets and new job creation along the way.
3. **<u>Aging workforce/ Demographic Changes:</u>** Currently one of the largest generations in America (Baby Boomers) is retiring, which decreases the available workforce. Demographic changes can also be meaningfully impacted by changes in immigration

laws (possibly limiting population growth) and changing birth rates, which could impact labor markets for decades to come.

4. **Economic forces/ Recessions/ Booms:** Perhaps most acutely, the relative strength of the economy will determine how businesses are performing and as a result how many employees are needed to meet the demands for the good or service offered. Again, it's important to note that employment typically has a meaningful lag. In other words, if the economy is weakening, employers generally will try to hold onto their employees for a while before ultimately making the economic decision to terminate them. Similarly, in a booming economy companies often attempt to delay hiring until it is necessary, guided both by historical experience and a reluctance to overcommit resources before they are confident those resources will be put to efficient and profitable use.

There are a number of other factors potentially worthy of consideration. The important takeaway right now is that labor markets are relatively balanced. Still, as mentioned, this can change and may be apparent only after economic conditions have weakened (or potentially strengthened). Our team is on alert for signals of weakening, some of which appear to be visible now. Because the labor markets are coming from a point of incredible strength, they may simply be normalizing rather than deteriorating to concerning levels.

Conclusion

A steady job is a key component of the American dream dating back to the nation's founding: America, the land of opportunity. However, labor markets have a high degree of complexity, and a better understanding of them can provide a solid foundation for recognizing some of the economic forces that drive markets. As the summer concludes in just a few short weeks, we hope you and your families are doing well. Please reach out to your Choreo advisor with any questions or comments.