Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On the June Jobs Report

Thursday, July 3, 2025

Donald Luskin

A surge in government hiring masks a miss and the third month of immigration in reverse.

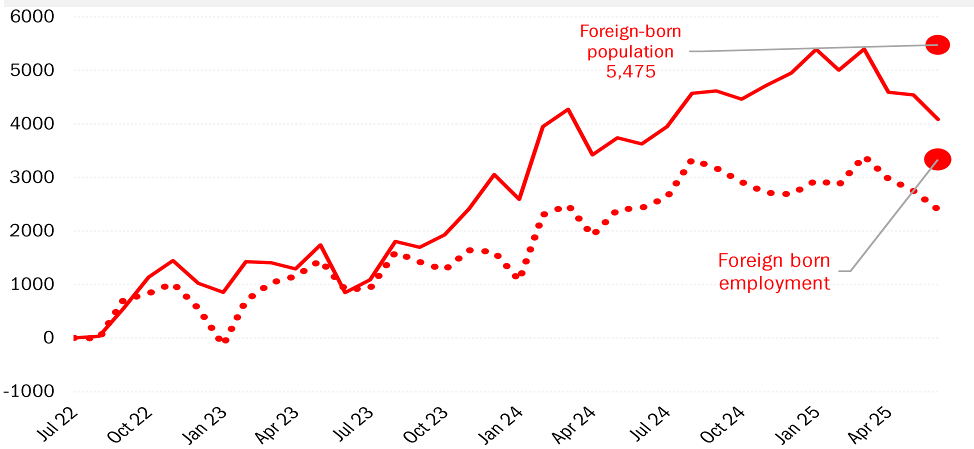
This morning's June 2025 Employment Situation Report with 147,000 net payrolls was a big beat versus the consensus that was expecting only 106,000. *We had been getting bored with exaggerated claims by some of our friends on the political right that all the payroll growth has been just government jobs. That hasn't been true for quite a while, but it was sure true in June. Almost half the growth – and more than all the beat – was 73,000 government payrolls, consisting of 47,000 at the state level and 33,000 at the local level, offset slightly by a contraction of 7,000 at the federal level* (see "Data Insights: Jobs" July 3, 2025).

Private sector payroll growth was 74,000. That's a substantial miss versus consensus for 100,000. And it just seems like a small number to begin with. But it's really spot-on with our estimate of the new-normal dial-tone for jobs growth now that the border has been effectively closed to new immigrants, leaving immigration effectively running in reverse after the surge of the prior three years (see "On the May Jobs Report: Immigration in Reverse while the Fed Hallucinates" June 6, 2025).

- In June, the immigrant population contracted by 458,000, the third month in a row. Immigrant employment contracted 348,000, also for the third month in a row (please see the chart below)

Cumulative immigrant population and employment growth after pandemic normal

— Actual ● Trend (thousand, not seasonally adjusted, population-controls adjusted)



Source: BLS Current Population Survey, TrendMacro calculations

Update to strategic view

US MACRO, FEDERAL RESERVE: 147,000 net payrolls was a big beat versus the consensus. But more than all the beat, and half the jobs growth, was due to state and local government hiring. Private payroll growth at 74,000 was a big miss. But it's spot-on the new-normal dial-tone for net jobs growth with immigration having effectively ceased, indeed running in reverse now for three months. It is not a recessionary number, and it comes as a relief after yesterday's ADP print showing private payroll contraction. Expectations for a July rate cut have vanished, but we still don't rule one out. There's nothing in today's jobs report, including tepid average hourly earnings growth, to keep the Fed from reacting dovishly to what we are sure will be a very mild CPI print in two weeks.

[Strategy dashboard]

74,000 new private sector jobs is not a recessionary number. It's just the jobs growth you can expect without immigration. And it's approximately consistent with the 55,000 net jobs estimate by our model based on a panoply of other contemporaneous labor market statistics.

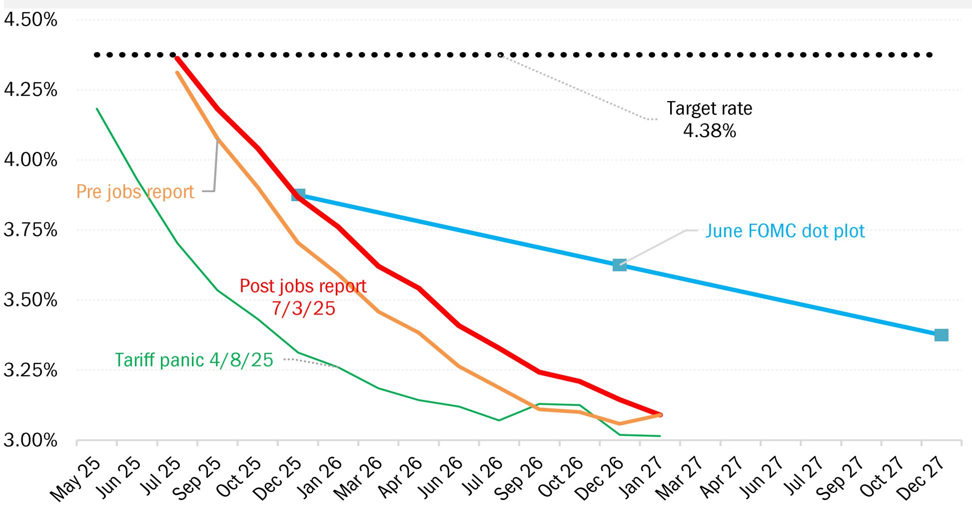
It is in stark contrast to the 33,000 contraction in private payrolls reported yesterday by ADP Research, and that's a good lesson in the dangers of confirmation bias. A Dow Jones story yesterday was typical, stating:

> "ADP on Wednesday said the private sector eliminated 33,000 jobs last month owing to lingering uncertainty caused by U.S. trade wars."

No, that was just a lie – or more likely an hallucination driven by confirmation bias. ADP literally did not say what Dow Jones said they said. Sorry, Dow Jones, but like most things, this isn't about President Donald J. Trump.

However *meh* this payroll report was without the artificial boost from government hiring, the post-immigration dial-tone was enough to shoo recession fears substantially off the stage. A subsequent print above 50 – and above consensus – by the Institute for Supply Management's Non-Manufacturing Purchasing Manager's Index sealed the deal. Market-based expectations for a Fed rate cut at the July FOMC meeting fell from about 25% to about 5%, and the path for the funds rate was moved up across the curve (please see the chart below).

Futures-implied fed funds target, by FOMC meeting



Source: Bloomberg, TrendMacro calculations

But we still don't rule out a July cut (see "Stocks at New Highs as Trump Turns the Fed – and Our Hot Take on This Morning's Supreme Court Ruling" June 27, 2025). Fed chair Jerome Powell has a mutiny on his hands, led by the most likely candidate for his job, Governor Christopher Waller (see "Video: Iran hot take, and... What you're not hearing about Fed Governor Christopher Waller's job application to replace Jay Powell" June 23, 2025).

Contact TrendMacro

On the web at
trendmacro.com

Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[About us]

AI podcast version

Click here to listen to an informal podcast version of this report made entirely by artificial intelligence.

Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.

When the Fed meets in July, they're not going to look at just one jobs report – about which the best thing we can say is that it's entirely normal (and remember, normal is the new normal without immigration). They are going to bear in mind that June growth in average hourly earnings was a mere 22 bp, only slightly more than half what it had been in May (which was itself revised lower).

But the Fed doesn't need a labor market calamity to cut rates. All it needs is another benign CPI print – and we're pretty sure it's going to get one. Our "Truflation" CPI estimate – which has racked up a very impressive forecasting record this year – is showing headline CPI printing in outright deflation for June (see "Data Insights: High Frequency Data and DOGE Monitor" July 3, 2025). Deflation would be gilding the lily. The Fed doesn't need that – just another month of at-or-below target to confound their prejudice that tariffs necessarily cause consumer inflation.

Bottom line

147,000 net payrolls was a big beat versus the consensus. But more than all the beat, and half the jobs growth, was due to state and local government hiring. Private payroll growth at 74,000 was a big miss. But it's spot-on the new-normal dial-tone for net jobs growth with immigration having effectively ceased, indeed running in reverse now for three months. It is not a recessionary number, and it comes as a relief after yesterday's ADP print showing private payroll contraction. Expectations for a July rate cut have vanished, but we still don't rule one out. There's nothing in today's jobs report, including tepid average hourly earnings growth, to keep the Fed from reacting dovishly to what we are sure will be a very mild CPI print in two weeks.