

TRENDMACRO LIVE!

On the August Jobs Report, and the June Contraction

Friday, September 5, 2025

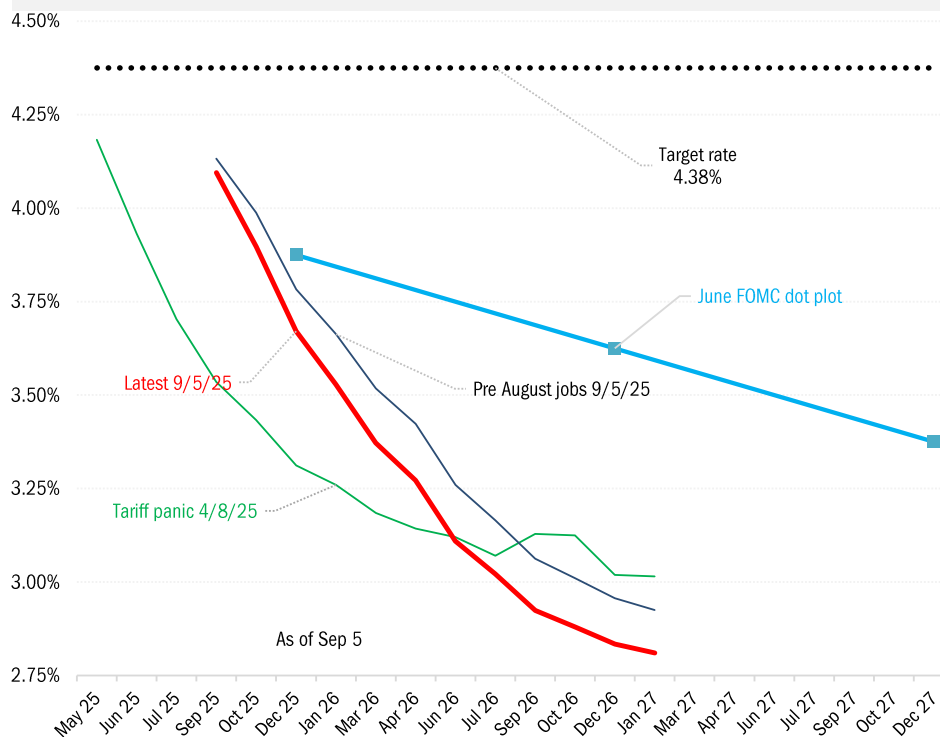
Donald Luskin

There's our September rate cut. And our recession signal – or is it?

With this morning's [August 2025 Employment Situation Report](#) showing only 22,000 net payrolls, and downwardly revising June to a contraction of 13,000, the Fed funds futures markets have moved to more than certainty that there will be a rate cut at the September FOMC the week after next.

- Markets are now expecting almost three cuts by year-end, one at each of the remaining FOMC meetings (please see the chart below). The rate at the January 2027 FOMC, just a year-and-a-half out, is now expected to be well below 3%, expectations even more dire than in early April at the worst of the post-“Liberation Day” bear market in equities – but now with stocks at new all-time highs.
- It's pretty hard to square all this – unless the market is simply thinking that this jobs report puts Trump-aligned Fed officials in the

Futures-implied fed funds target, by FOMC meeting



Source: Bloomberg, TrendMacro calculations

Update to strategic view

US MACRO, FEDERAL RESERVE: A big miss in payrolls, but at variance with the “household survey” and every other labor market indicator. The critical element is the revision of June payrolls to a contraction of 13,000, the first since the recovery from the pandemic. We have said that a payroll contraction is, historically, the best indicator of the end of an expansion and the onset of recession. This time it may not be. Mass self-deportation of almost 2 million recent immigrants has led to job losses not driven by the inability of the economy to employ. Rather than evidence of labor market slack, the hallmark of recession, we are seeing evidence of labor market tightness. At least a 25 bp cut at the September FOMC is assured now, no matter how hot CPI prints next week. Three cuts are now expected in markets by year-end, and a funds rate below 3% by early 2027. If this impounds recession expectations, it is wrong. Perhaps it impounds expectations that Trump-aligned officials will sway the Fed to lower rates whether or not they are objectively needed.

[\[Strategy dashboard\]](#)

ascendency, and that a sharp rate-cutting cycle is about to begin without any stock market-based forecast of recession (see [“On Miran’s Senate Banking Hearing: Triumph of the Weasel”](#) September 5, 2025).

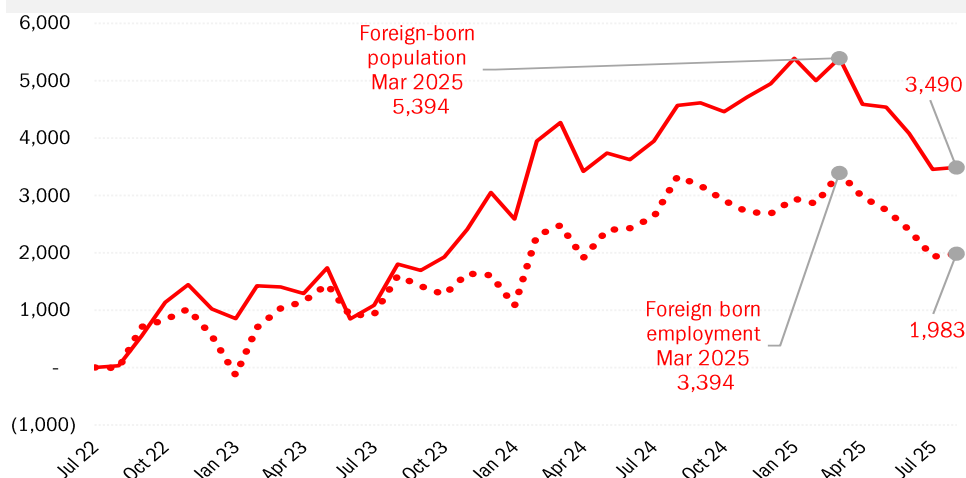
- The analysis might be that, of all the ways of looking at the August labor situation, the weak payrolls number is very much an outlier.
- Our model based on a broad range of contemporary labor market statistics says that payrolls should have shown 122,000 net gains. You can say the model was just wrong, and fair enough – but it melds nine objective observation-points which, in aggregate, contradict the single observation-point of payrolls.
- Employment gains in the [“household survey”](#) (which is not included in our model) were 288,000. The labor force expanded by 436,000, of whom two thirds became employed – which is why the unemployment rate ticked up to 4.32% from 4.24% (that didn’t trigger the so-called “Sahm Rule,” for whatever that’s worth – see [“Two Faddish Indicators and Their Flaws”](#) September 9, 2024). The probability of an unemployed person getting a job within a month rose to a very robust 32.2% (all these and much more are in [“Data Insights: Jobs”](#) September 5, 2025).

For us the crucial question right now is the revision to June. This is the first month of contraction since the recovery from the pandemic lockdowns.

- During the two false-alarm years from April 2022 to April 2024, when the yield curve had inverted, the Index of Leading Indicators had rolled over, and the consensus was unanimously convinced that recession was already upon us, we stood alone and we were right. There was no recession, and we knew there couldn’t be until there was a contraction in payrolls, because historically that has virtually been the operating definition of recession.
- Now we have our contraction in payrolls. Do we have our recession?

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

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

- This is hard for us. We made such a point, over and over in 2022 and 2023, of saying the business cycle ends when you get your first negative payroll print, and not until. Here it is, but we must question whether it commands us to make a recession call here. At the moment, we are not going to make that call.
- There has been a wave of self-deportation of recent immigrants. At peak in March, from July 2022 when the labor market had stabilized after the lockdowns, 5.4 million adult immigrants flooded into the US, of whom 3.4 million, or 63%, became employed (please see the chart on the previous page). There was a slight uptick reported for August in both immigrant population and employment, but from the peak just five months ago, the immigrant population is down 1.9 million, and immigrant employment by 1.4 million, or 74%.
- They've gone home as the economic landscape has become more hostile, as immigrant waves have done over and over throughout American history.
- With numbers that large, we'd expect even more impact on net payroll than we've seen. Surely the explanation is that at least some of these immigrants have not actually left the US, but have recharacterized themselves to census-takers as native-born.
- We just don't know. But we know the direction. And we know that any resultant contraction in employment is, therefore, not arising from the usual cause – the inability of the economy to employ those who want to work. There is no evidence of that. There is no evidence of slack in the labor market. If anything, the exodus of employed immigrants creates the opposite of a recession, the opposite of a slack labor market – it creates a tight labor market in which an economy eager to grow can't find enough workers. That doesn't make it good news – no, it is a difficult limit to growth. But does it point to recession? Absolutely not.
- So should the Fed scurry to cut rates? Should it even cut rates by 50 bp at the September FOMC rather than the 25 bp markets are fully expecting? We can be sure that self-promoting job-seekers looking to fill Chair Jerome Powell's shoes will be all over the media howling for 50 bp (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).
- As a baseline, we'd be surprised if a 50 bp cut materializes, but there will be lots of debate about it in the coming ten days. In this environment, next week's CPI would have to be a scorcher to take 25 bp off the table. Maybe the play here is the opposite. If CPI comes in especially weak – as our ["Truflation"](#) real-time indicator says it will – at just 1.4% at an annual rate – that 50 bp cut could get very real very fast.

Bottom line

A big miss in payrolls, but at variance with the “household survey” and every other labor market indicator. The critical element is the revision of June payrolls to a contraction of 13,000, the first since the recovery from the pandemic. We have said that a payroll contraction is, historically, the best indicator of the end of an expansion and the onset of recession. This time it

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