US Market Briefing

July 2026

Payroll Growth Slumps to 57,000 as Labor Market Cools Sharply; Inflation Retreats to 3.5% as Energy Shock Unwinds

- Payrolls rose just 57,000 in June, missing the +115,000 forecast; April and May were revised down by a combined 74,000.
- Unemployment fell to 4.2%, but participation dropped to 61.5% and household employment declined by 507,000.
- Wages rose 0.3% MoM and 3.5% YoY to $37.64, broadly matching June CPI inflation of 3.5%.
- May openings held at 7.6 million; hires reached 5.2 million, while the quits rate remained subdued at 1.9%.

June delivered a decisive signal that the US labor market is cooling. Nonfarm payrolls rose just **57,000** - half the **115,000** consensus and the weakest reading in four months - while sharp downward revisions cut April and May by a combined **74,000** jobs.

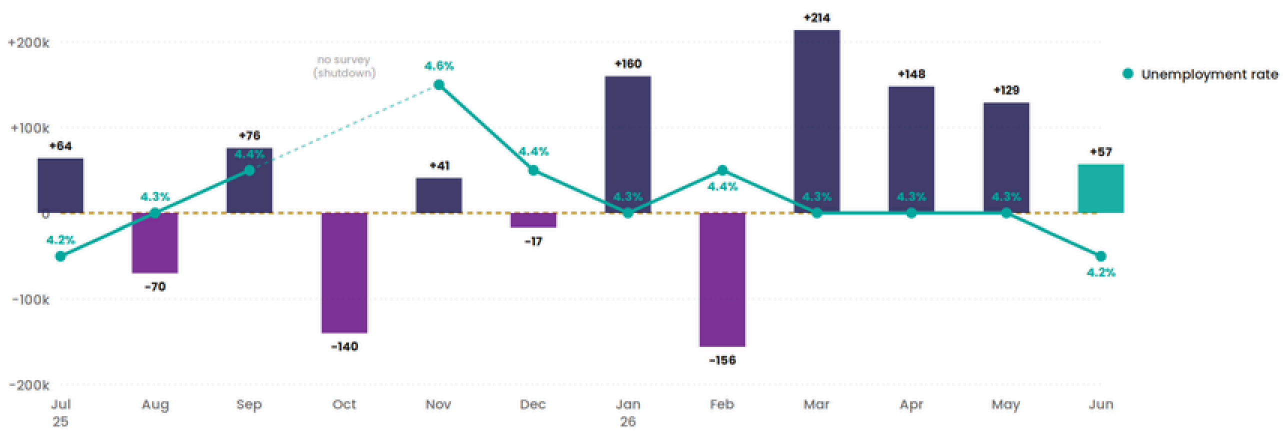
The headline unemployment rate fell to **4.2%**, but for the wrong reasons: the decline was driven by a **0.3**-point drop in labor force participation to **61.5%**, its lowest since March 2021, as **507,000** people left the household survey's employment count.

Leisure and hospitality lost **61,000** jobs as seasonal hiring weakened and the expected World Cup boost failed to appear. Inflation provided some relief, with CPI falling from **4.2%** in May to **3.5%** in June as energy pressures eased following the US-Iran de-escalation.

Renewed hostilities in mid-July, however, have added uncertainty to the outlook. Wage growth now broadly matches inflation, leaving real earnings largely flat. Cooling employment and lower inflation reduce pressure on the Federal Reserve to tighten further, although geopolitical risks make the timing of any rate cuts uncertain.

US Nonfarm Payroll Change & Unemployment Rate, Jul 2025 – Jun 2026

Bars = monthly payroll change (000s), fully revised; line = unemployment rate (%)
Source: BLS Employment Situation (PAYEMS, FRED), reflecting the 2026 annual benchmark revision



Source: BLS Employment Situation, June 2026, released 2 July 2026. Jul–Dec 2025 figures reflect the annual benchmark revision (Feb 2026).
October 2025 household-survey data (unemployment) were not collected due to the federal government shutdown; the payroll figure was collected.

Sectoral Performance

Leisure Falls Sharply; Gains Concentrated in Selected Services

June's job gains were narrowly concentrated and outweighed by a single large loss. Professional and business services led with 36,000 jobs, followed by social assistance (+25,000) and health care (+22,000, with hospitals adding 9,000).

Beyond these three service categories, employment was essentially flat across the economy: mining, construction, manufacturing, wholesale trade, retail trade, transportation and warehousing, information, financial activities, and government all showed little or no change.

The decisive drag was leisure and hospitality, which shed 61,000 jobs on weaker-than-usual seasonal hiring — a striking reversal from the sector's +70,000 surge in May.

There had been speculation, including a Goldman Sachs estimate of a 40,000 boost, that FIFA World Cup preparation would lift June payrolls; instead the sector was the largest single drag.

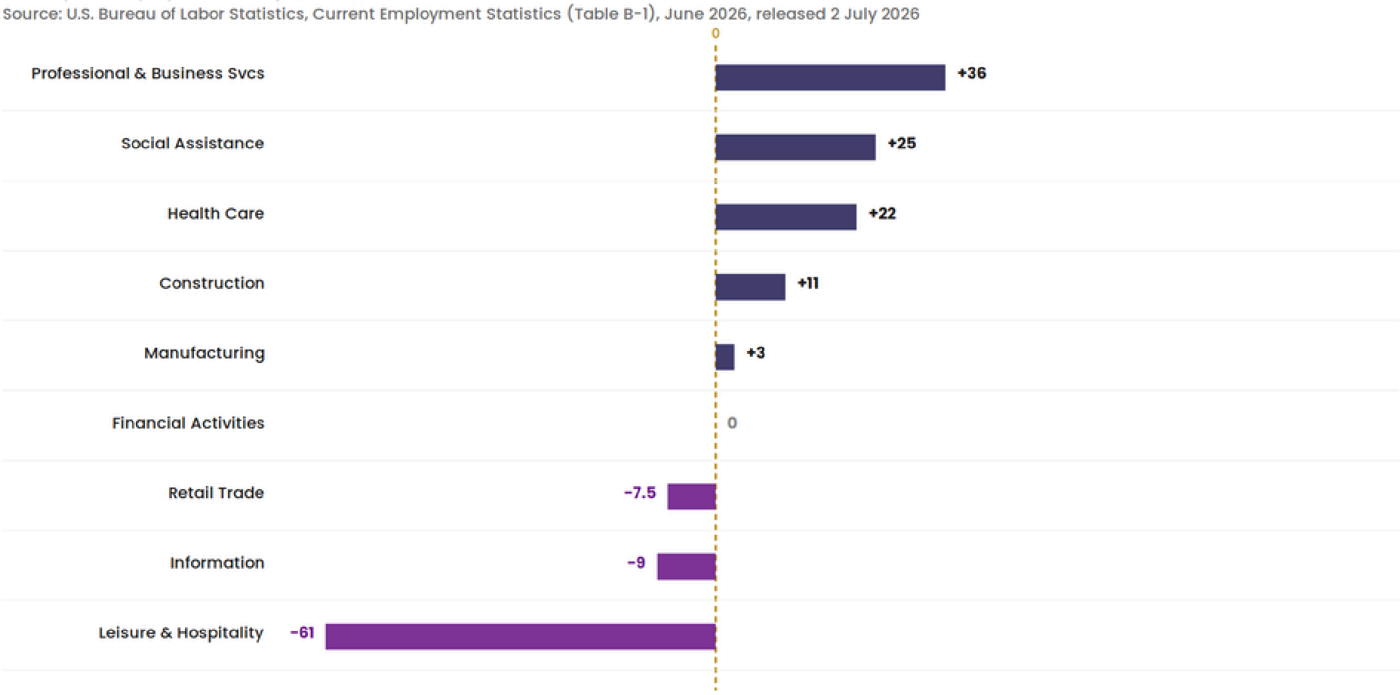
A decline in seasonally adjusted leisure and hospitality employment does not prove the World Cup created no jobs — it means hiring was weaker than normal seasonal patterns would imply. Thus far in 2026, the sector has shown little net change overall, suggesting the May spike was noise rather than trend.

The concentration of gains in a narrow group of service industries — healthcare and social assistance (both relatively defensive), plus professional and business services (which is economically cyclical) — is characteristic of a labour market where broad-based hiring has stalled. Continued growth in the cyclical professional and business services category is a modestly reassuring signal amid the wider slowdown.

US Employment Change by Selected Industries, June 2026

Monthly net employment change (000s), selected industries

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (Table B-1), June 2026, released 2 July 2026



Selected industries shown; not all sectors included. Source: BLS Current Employment Statistics (Table B-1), June 2026, released 2 July 2026

Why the Unemployment Rate Fell for the Wrong Reason

June 2026 household survey | Source: U.S. Bureau of Labor Statistics

Unemployment rate	4.2%	Down from 4.3% — but not from job gains
Labor force participation	61.5%	Down 0.3pp — lowest since March 2021
Household employment	-507,000	People reported at work fell sharply
Employment-population ratio	59.0%	Down 0.2pp on the month

The 4.2% headline masks weakness: the rate fell because people left the labour force, not because more found work.

Wage and Labor Supply Dynamics

Real Pay Stabilises as the Energy Shock Unwinds

The inflation picture improved markedly in June. CPI rose 3.5% year-on-year, down sharply from May's 4.2% — the highest reading since April 2023 — and the first annual decline in five months.

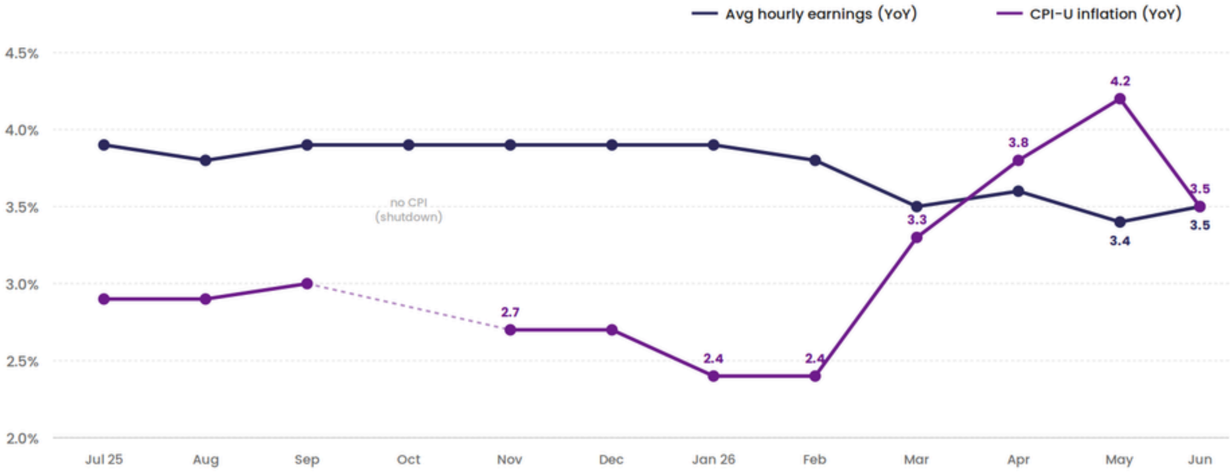
On a monthly basis, CPI fell 0.4%, the largest one-month decrease since April 2020, as the energy index dropped 5.7% following the mid-June US-Iran de-escalation that unwound much of the Strait of Hormuz shock (though renewed hostilities in mid-July have since reintroduced uncertainty).

Energy prices, up 23.5% year-on-year in May, moderated to 15.7% in June, with gasoline's annual increase easing from 40.5% to 26.7%. Core CPI, which strips out food and energy, eased to 2.6% from 2.9%, its lowest in months.

Against this, average hourly earnings rose 3.5% year-on-year — with official BLS real average hourly earnings down just 0.1% over the year — broadly flat after turning more clearly negative in May. For the Federal Reserve, the combination is significant: inflation is retreating toward target just as the labour market shows clear signs of cooling.

US Wage Growth vs Inflation, Jul 2025 – Jun 2026

Year-over-year (%) | Source: U.S. Bureau of Labor Statistics, Employment Situation & CPI, June 2026



June 2026: AHE +3.5% vs CPI +3.5%. Official BLS real average hourly earnings fell 0.1% over the year. CPI fell from its 4.2% May peak.

October 2025 CPI not collected (shutdown). Source: BLS Employment Situation & CPI, June 2026. CPI released 14 July 2026.

The weaker employment report reduces pressure for further tightening, but the inflation outlook and renewed geopolitical risks leave the timing of any easing uncertain. Markets responded to the June employment report primarily by trimming expectations of any near-term rate increase, with the 2-year Treasury yield falling on the release. Note the Fed targets 2% PCE inflation, not CPI, so the CPI improvement is suggestive rather than decisive for policy.

Labor Demand Dashboard

Openings Hold, But Mobility Stays Frozen

The May JOLTS data (released 30 June) reinforced the picture of a labor market that is stable in aggregate but frozen beneath the surface. Job openings held at 7.6 million and hires at 5.2 million, both unchanged on the month.

The quits rate remained at 1.9%, where it has sat at or below 2% for almost a year — well below the pre-pandemic norm and far from the 3% peak of the Great Resignation in early 2022.

As the Indeed Hiring Lab observed, the labor market is "definitely not broken, but it's also not really moving": there are openings, but workers are not changing jobs, and recent employment gains have been driven more by a historic drop in separations than by new hiring.

The quits rate in leisure and hospitality edged up from 3.7% to 4.0%, and in information from 0.9% to 1.1% — but both remain well below the levels of recent years, consistent with historically weak worker confidence.

The jobs-per-unemployed ratio ticked up to 1.04, its highest since January 2025, but this reflects the falling labour force as much as genuine demand strength.

US Labour Market: Demand & Mobility Dashboard, May 2026

JOLTS metrics | Source: U.S. Bureau of Labor Statistics, JOLTS, released 30 June 2026

INDICATOR & SOURCE	VALUE	DIR.	CONTEXT
Job Openings *May 2026*	7.6M	▶	Unchanged from April Openings rose in wholesale trade (+71k)
Hires *May 2026*	5.2M	▶	Unchanged; rate 3.3% Hiring subdued despite openings holding up
Quits *May 2026*	3.1M	▶	Rate 1.9% — below 2% for ~a year Worker confidence remains historically weak
Layoffs & Discharges *May 2026*	1.7M	▶	Unchanged; rate 1.1% Low-fire environment persists
Jobs per Unemployed *May 2026*	1.04	▲	7.6M openings vs 7.3M unemployed Highest since January 2025

Source: U.S. Bureau of Labor Statistics. JOLTS. May 2026. released 30 June 2026

Comparative Analysis: US vs. Global Labor Markets

At 4.2%, US unemployment remains below the UK (4.9%, Feb–Apr 2026) and the Eurozone (6.2%, May 2026), and well below France (8.2%) and Spain (10.3%). Japan (2.5%) and South Korea (2.8%) continue to operate with structurally tighter markets.

But an important development is that the energy shock which had pressured all these economies partially unwound globally following the mid-June US-Iran de-escalation — though renewed hostilities reported in mid-July mean this improvement occurred before a fresh escalation and may reverse.

The same disinflation visible in the US June CPI was expected to feed through to the UK, Eurozone and energy-importing APAC economies over the coming months, which would have given central banks across all three regions more room to support their labour markets — but this now depends on whether the mid-July escalation proves temporary or durable.

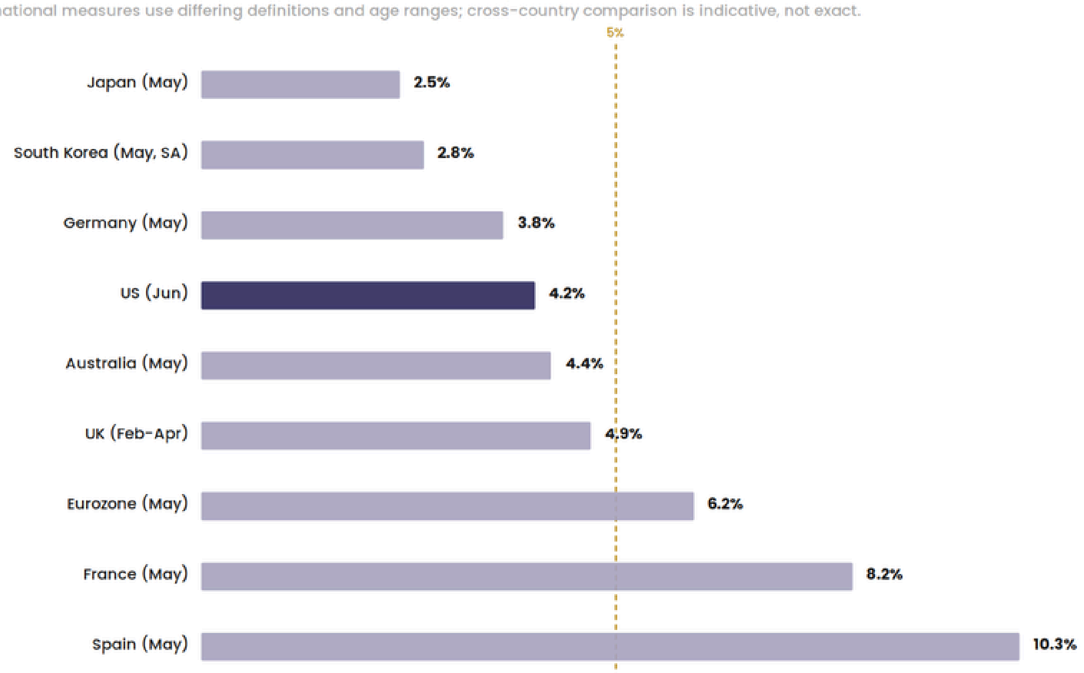
The US now finds itself in a relatively favourable position: inflation is retreating faster than in the UK, where CPIH remains elevated, and the Federal Reserve's policy rate of 3.50–3.75% leaves more room to ease than the Bank of England has, given the UK's stickier services inflation.

The key differentiator heading into the second half of 2026 is that the US is cooling from a position of relative strength, while the UK is weakening from an already softer base.

Global Unemployment Rates Comparison

Latest available rates, mixed reference periods, data as of mid-July 2026

Note: national measures use differing definitions and age ranges; cross-country comparison is indicative, not exact.



US highlighted (4.2%, June 2026). UK: ONS Feb-Apr 2026. Eurozone/France/Spain: Eurostat May 2026. Germany: Destatis May 2026. Japan/S.Korea/Australia: national agencies, May 2026.

Strategic Implications for HR and Talent Acquisition

- Plan for a softer H2 hiring market; June's 57,000 payroll gain and 74,000 in downward revisions confirm that employment growth is cooling.
- Use falling participation as a sourcing opportunity. Target returners, career-changers and older workers who may be overlooked by competitors.
- Treat the 1.9% quits rate carefully; low attrition may reflect worker caution rather than satisfaction. Use surveys, mobility and pay reviews to reduce quiet-stay risk.
- Build pipelines conservatively outside healthcare, social assistance and professional services, where hiring growth remains concentrated.
- Inflation at 3.5% reduces wage pressure, but freezing pay would still weaken purchasing power. Aim for increases broadly aligned with inflation where budgets allow.
- Do not assume lower interest rates are imminent. Weaker employment reduces pressure for further tightening, but inflation and geopolitical uncertainty may delay Federal Reserve easing.

Forecast / Outlook

Payroll growth is likely to remain weak through H2 2026, with the 12-month average falling to just 36,000 and recent gains concentrated in a narrow group of service industries.

Unemployment could gradually rise toward 4.4–4.5% if hiring remains subdued and participation begins to stabilise, revealing more of the labour market's underlying weakness. Inflation may continue to moderate if energy prices stay contained, although renewed US-Iran hostilities create a material risk of reversing that progress.

The Federal Reserve is therefore likely to remain cautious, as weaker employment reduces the case for further tightening but persistent inflation risks make near-term easing uncertain. The July employment report will be a critical test, with another sub-100,000 payroll increase likely to confirm that the slowdown is becoming a sustained trend rather than a temporary setback.

Sources & Assumptions

- *U.S. Bureau of Labor Statistics, Employment Situation, June 2026 (released 2 July 2026) — payrolls, unemployment, participation, wages, sector breakdown, revisions.*
- *U.S. Bureau of Labor Statistics, Consumer Price Index, June 2026 (released 14 July 2026) — CPI-U +3.5% YoY, core +2.6%, energy -5.7% MoM.*
- *U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS), May 2026 (released 30 June 2026) — openings, hires, quits, layoffs, jobs-per-unemployed. Commentary: Indeed Hiring Lab, "May 2026 JOLTS Report: More of the Same," 30 June 2026.*
- *Comparative data: ONS UK (Feb–Apr 2026); Eurostat (May 2026, euro-area 6.2%); Destatis Germany; national statistics agencies for Japan, South Korea, Australia (May 2026). World Cup estimate (Goldman Sachs ~40,000) and payroll consensus (Dow Jones +115,000) as reported by CNBC, 2 July 2026.*
- *Energy context: mid-June US-Iran de-escalation and subsequent mid-July renewed hostilities, and their effect on Brent crude and the CPI energy index; EIA Short-Term Energy Outlook, July 2026.*
- *Note: The June unemployment-rate decline should be interpreted cautiously because participation and household employment also fell; BLS characterised unemployment and payroll employment as having "changed little". CPI and payroll data are subject to revision. October 2025 household-survey and CPI data were not collected due to the federal government shutdown.*