

# Summer labor market is much weaker than previously reported

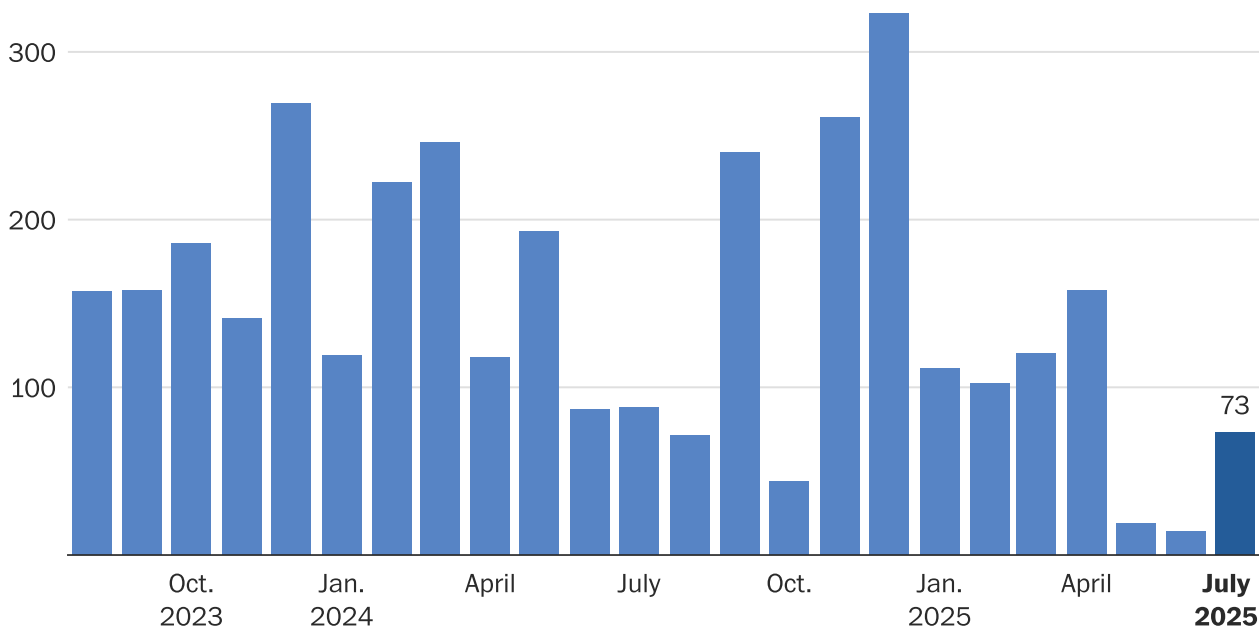
The unemployment rate ticked up to 4.2 percent in July.

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By [Lauren Kaori Gurley](#) and [Andrew Ackerman](#)

The U.S. labor market is much weaker than policymakers realized, with U.S. employers pulling back sharply on hiring especially in May and June, as they grapple with uncertainty fueled by Trump administration policies.

## Monthly change in non-farm jobs during past two years



Seasonally adjusted; the figures for the most recent two months are preliminary

Source: Bureau of Labor Statistics

LAUREN KAORI GURLEY / THE WASHINGTON POST

The economy added 73,000 jobs in July, less than expected. But more shockingly, hiring in May and June was downgraded by a quarter of a million jobs fewer than previously reported, according to Labor Department data released Friday. The unemployment rate in July edged up slightly to 4.2 percent, a relatively low level. Altogether, the July jobs report paints a shakier picture of the labor market than data previously suggested.

The weak labor market news combined with the White House announcement of a new slate of sharper tariffs for dozens of countries taking hold next week soured financial markets on Friday, with the S&P 500 and the tech-heavy Nasdaq both trading more than 1 percent lower.

Higher tariffs that have been in place for steel and aluminum imports, elevated interest rates for more than two years, federal spending cuts, as well as tougher immigration enforcement policies are all weighing on key industries, economists say. Also a pullback in consumer spending could be dampening the labor market.

“There’s little question about what this report says about the labor market: It’s weaker,” said Diane Swonk, chief economist at KPMG. “There’s a risk that we see a rise in the unemployment rate now in any given month.”

White House Council of Economic Advisers chair Stephen Miran said the jobs report “isn’t ideal,” but “it’s all going to get much, much better from here.”

“We’re creating trade deals left and right that have unlocked enormous new potential for the American economy. The tariff uncertainty is fading away. Tariff rates are settling in,” Miran said. “On top of that, there are such strong, powerful incentives in the one big, beautiful bill for investment.”

In the biggest change to experts’ understanding of the labor market, job creation for May and June was revised lower by a combined 258,000 jobs — bringing June job creation down to 14,000 and May to 19,000, both very low levels.

## U.S. unemployment rate

Share of the labor force actively seeking jobs



Note: Seasonally adjusted

Source: [Bureau of Labor Statistics via FRED](#)

“The monster downward revisions to the past two months inflicts a major blow to the picture of labor market robustness,” said Seema Shah, chief global strategist at Principal Asset Management, in an analyst’s note. “What’s more concerning is that with negative impact of tariffs only just starting to be felt, the coming months are likely to see even clearer evidence of a labor market slowdown.

The dour jobs data increases pressure on the Federal Reserve, which has put off cutting interest rates for months citing labor market strength. On Wednesday, Fed Chair Jerome H. Powell told reporters that “solid” job gains gave the central bank ammunition to hold off on rate cuts, as it monitors “downside risks.” But Friday’s report suggests that cracks in the labor market have grown, complicating the central bank’s stance.

The Fed is in a tricky position, tasked with balancing its dual mandate of maximum employment and stable inflation. Prolonged economic uncertainty appears to have slowed growth and weakened the jobs market, conditions that would normally prompt a rate cut. At the same time, tariffs appear to be reigniting inflationary pressures, potentially justifying higher rates instead.

The jobs data offered other reasons for concern. In July, hiring gains were concentrated in just two industries: Health care, fueled by the country’s aging demographics, added 55,000 jobs, and social assistance added 18,000 positions — boosted by services for families. The two accounted for 94 percent of job growth, according to the data.

Federal government payrolls fell by 12,000 amid widespread cuts enacted by the Trump administration that have amounted to 84,000 positions since January.

Tariff-sensitive industries showed sluggish growth or lost jobs. Retail added 16,000 jobs; construction ticked up by 2,000 positions; and transportation and warehousing increased by 3,600 positions. Meanwhile, manufacturing lost 11,000 jobs.

White-collar sectors continued to perform poorly. The financial services sector added 15,000 jobs, while the information sector, which includes tech, shed 2,000 jobs. And professional and business services lost 14,000 jobs.

“If you’re in health care right now, it’s pretty easy to find a job,” said Cory Stahle, an economist at the Indeed Hiring Lab. “If you are outside of health care, it is a lot harder.”

Employers are hiring at close to the slowest pace in more than a decade, excluding the pandemic, according to a separate report released by the Labor Department this week.

However, there are a few bright spots: Layoffs remain at longtime lows, according to a separate Labor Department report released Tuesday, and wage growth is outpacing inflation, in a boost to Americans’ pocketbooks.

The jobs report adds to a flurry of new economic data as well as policy decisions announced this week that point to increasing financial burdens on U.S. households. In addition to the weak jobs report Friday, data released by the Commerce Department on Thursday showed inflation remained hot in June, a sign that tariffs are increasing pressure on prices. And though Americans are still spending, it’s at a much slower pace compared to recent summers, the data showed.

The upshot to all of this is that the last 24 hours “have been a nightmare scenario for the Fed,” said Ernie Tedeschi, economics director at the Yale Budget Lab. He described the data as a stagflationary scenario in which both the labor market weakens and inflation remains high.

Reduced immigration and heightened deportations also appear to be stunting the labor market. More than 1.6 million foreign-born workers have left the workforce since March, according to Friday’s jobs data. That appears to have weighed on hiring in leisure and hospitality, as well as construction and manufacturing — industries where immigrants tend to work. In the past few years, immigration has buoyed strong labor market growth.

Volatile trade policy is also weighing on many of the same sectors. And the full impact of higher import costs is yet to be felt. On Aug. 7, higher trade levies on dozens of countries will go into effect. The Trump administration is still negotiating the details of other agreements.

Balsam Hill, a top Christmas decor retailer that imports artificial trees from suppliers in China and Southeast Asia, has already cut jobs in response to the Trump administration’s trade levies. To prepare for tariffs, Balsam cut about 10 percent of its more than 350 employees, including some in the United States. The company has also frozen cost-of-living raises, cut hiring plans and paused nonessential travel.

“The amount of the tariffs is far more than our profit as a company,” said Mac Harman, the company’s chief executive. “Any free capital we have for growth has gone into paying tariffs.”

#### **CORRECTION**

A previous version of this article misstated the number of jobs the federal government has shed since January. It is 84,000.

### **What readers are saying**

The comments reflect significant concern about the current state of the labor market, characterized by slow job growth, inflation, and industry-specific challenges. Many commenters attribute these issues to the Trump administration's policies, particularly tariffs and economic... [Show more](#)

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