Daily Dose of Macro & Markets 1st August 2025: "Today's NFP Data -> All Eyes on: 'Those Not in the Labour Force'"

The 'Daily Dose of Macro & Markets' is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

Is the Unemployment Rate (Really) the Main Number?

"main number you have to look at is unemployment rate";

Source: Chair Powell, Wednesday's Press Conference

It's all eyes today on the US nonfarm payrolls data (out at 1:30pm London time/8:30am EST) – as well as the ISM manufacturing data (3pm London time/10am EST).

In Powell's view, as laid out at this week's press conference, the US labour market is in balance. That is, the unemployment rate has been stable for the past 12 months, while "demand and supply for workers (are) declining at the same pace" (i.e. given slower job creation, coupled with higher deportations limiting supply growth). As such, the "unemployment rate is now the labour market's key indicator". *NB quotes are from the press conference.*

That measure of the labour market, however, doesn't paint the full picture. Over the past year the participation rate has eased off as the number of disaffected workers has increased. That is, given challenges finding work ~3 million workers have withdrawn from offering themselves for work (i.e. they are 'no longer in the workforce' – FIG 1). That's a sign that there are less jobs around (available) and is one of the main reasons why the participation rate has been falling (NB the upward revisions of the population size at the end of 2024 are a further contributory factor*).

Either way, the slack in the labour market appears to have limited bearing on the level of consumer price inflation (i.e. it's not a useful tool for predicting inflation). The Phillips curve** (a Keynesian construct at the centre of the purported 'unemployment rate – CPI' relationship) is exhibiting no clear correlation between those two variables. As the chart shows (FIG 2), since late 2022 inflation has fallen, while the unemployment rate has barely changed (NB The line is supposed to move from top left to bottom right). In essence, this is consistent with Janet Yellen's admittance in 2017 that the Fed 'isn't convinced it understands the (fundamental) forces driving inflation'.

"My colleagues and I may have misjudged the strength of the labor market, the degree to which longer-run inflation expectations are consistent with our inflation objective, **or even the fundamental forces driving inflation.**" (NB our bolding)

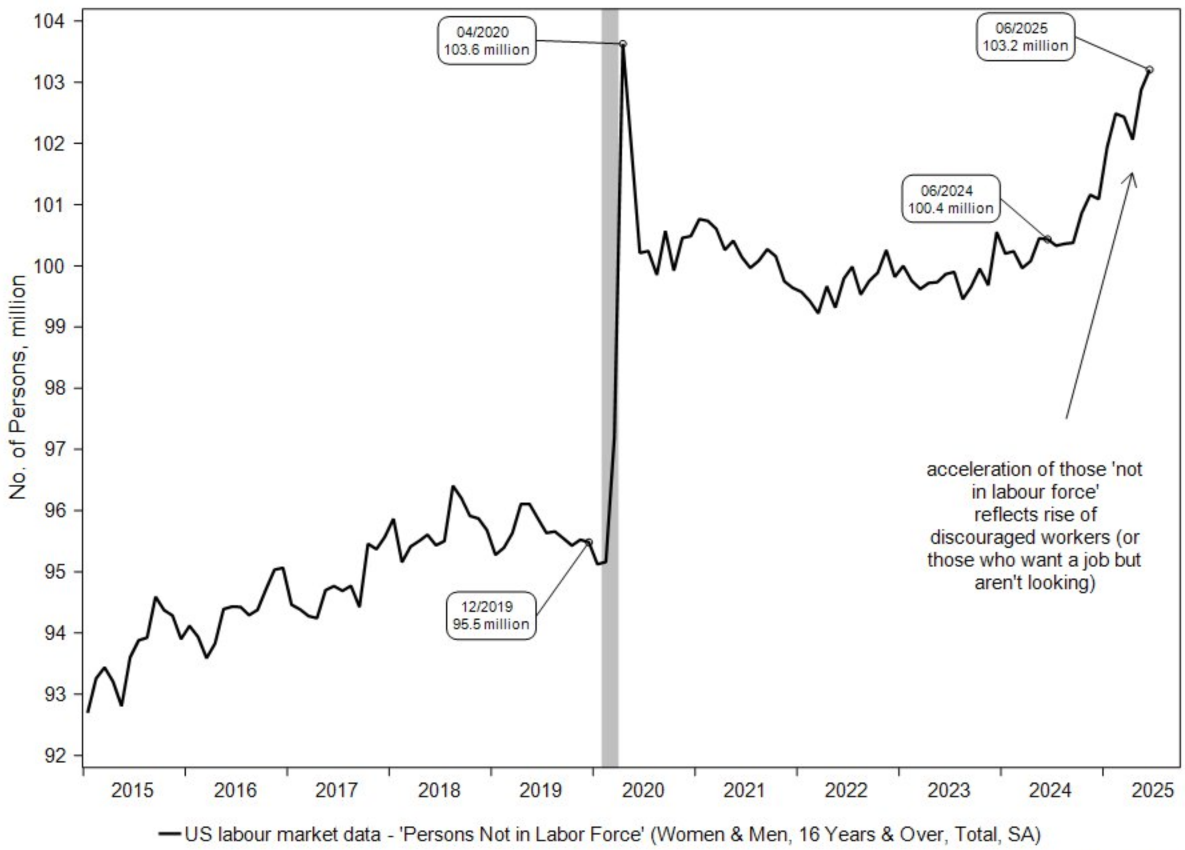
Source: Janet Yellen speech - https://www.federalreserve.gov/newsevents/speech/yellen20170926a.htm
September 26, 2017: "Inflation, Uncertainty, and Monetary Policy", Chair Janet L. Yellen

More importantly, wage inflation is trending down and private sector employment growth (according to the trend in NFP private jobs employment data and the ADP equivalent) has been slowing – see FIG 3. That is a recipe for slower total income growth and, therefore, slower consumer spending (as we have seen in 1H 2025 consumer spending data, published and updated with GDP & monthly PCE data earlier this week).

Amongst the key variables to watch today, therefore, are: i) Wage inflation; ii) 'those not in the labour force' (& other measures of 'slack'); & iii) private sector employment growth.

All eyes on NFP at 1:30pm London time.

Fig 1: US labour market data -> 'persons not in labour force' (millions)

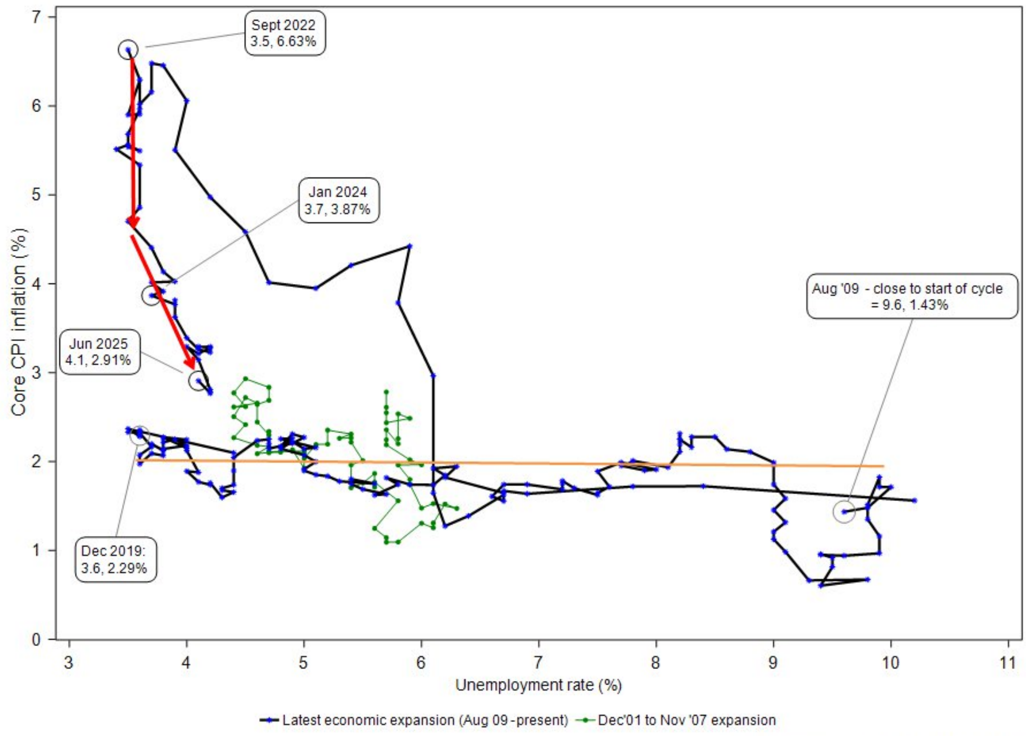


Source: Longview Economics, Macrobond

*i.e. In January 2025 the US population size was revised upwards/jumped from 269.64 million (Dec '24) to 272.69 million (Jan '25). Potentially that may have effected the data in FIG 1. As the chart above shows, though, there is a clear trend in the 'persons not in labour force' data over the past year and not a sudden jump in January 2025. That suggests a steady deterioration and is supportive of our view that there is a clear deterioration (albeit this merits further investigation).

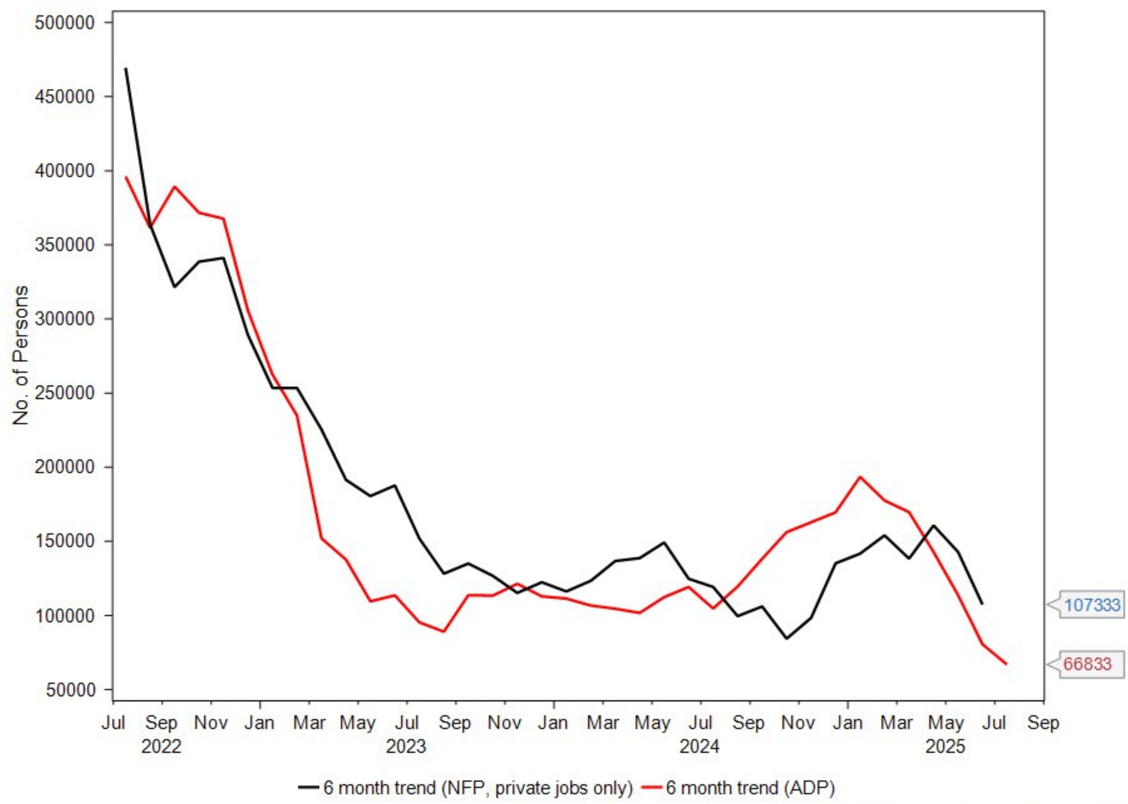
**This was originally designed as a plot of the relationship between the unemployment rate and wage inflation (in the 1950s by K Phillips). It has since been adapted (by academics/policy makers) to use consumer price inflation instead of wage inflation. It is a key tool for policy makers.

Fig 2: US 'Phillips Curve' (using the unemployment rate and core CPI, Y-o-Y %)



Source: Longview Economics, Macrobond

FIG 3: US private sector job creation (Y-o-Y %, 6m smoothed, NFP & ADP data)



Source: Longview Economics, Macrobond