By Global Markets | 11 August 2026

United States

Falling participation flatters the unemployment rate

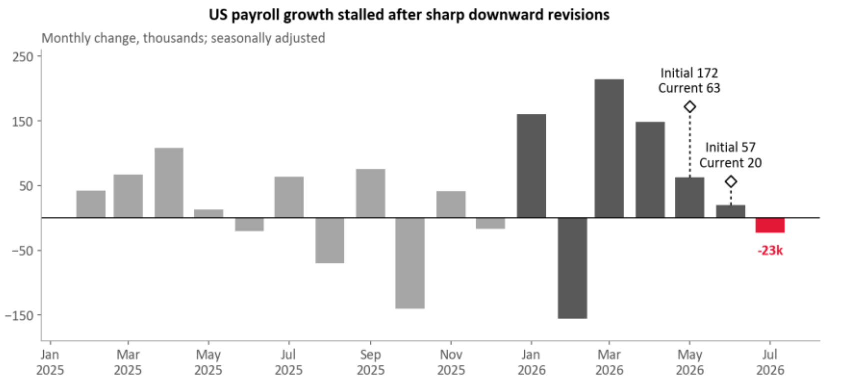
OCBC Group Research

- **Hiring stalls with downward revisions in previous months.** NFP fell 23k in July, while May and June were revised down by a combined 103k; the three-month average is now only 20k.

- **The 4.1% unemployment rate is misleading.** Household employment fell 87k, but the labour force contracted by 264k as participation slipped to 61.4%, 0.7 percentage point below January 26.

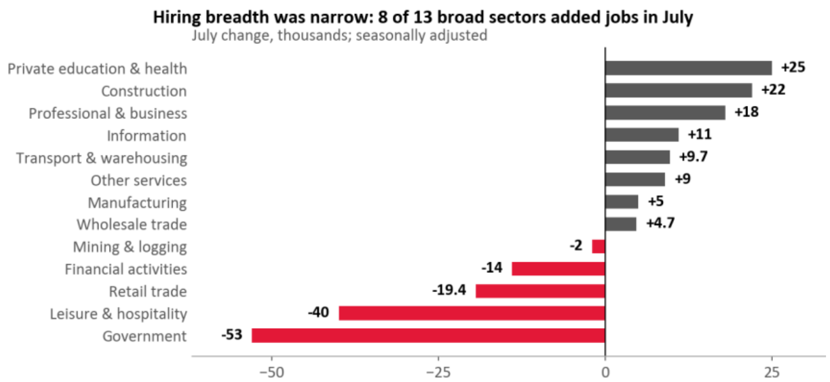
- **Constant LFPR from January would put unemployment at 5.1%.** Hiring trends are weakening rapidly, which will give the Fed pause for thought when considering rate hikes.

Do not be misled by the lower unemployment rate. By all accounts, this was a weak reading of the labour situation. Nonfarm payrolls fell 23k, after gains of 63k in May and 20k in June. May was previously reported at 129k and June at 57k and jobs in the two months were revised lower by 103k. The May-July average is now only 20k per month and the consistent downward revisions this year meant initial payroll estimates have been overstating underlying hiring.



Source: BLS; OCBC Group Research.

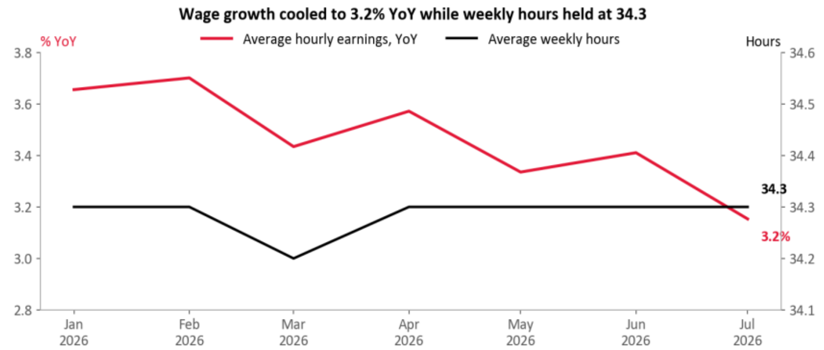
The headline contraction led by a 53k fall in government employment, including a 49.6k decline in local-government education. Private payrolls still rose 30k, but breadth was mixed. Construction added 22k, professional and business services 18k, information 11k and private education and health services 25k. These gains were offset by declines of 40k in leisure and hospitality, 19.4k in retail and 14k in financial activities. The former also recorded a 43k loss in June, suggesting that any positive World Cup effect might have been overblown.



Source: BLS; OCBC Group Research.

The declining unemployment rate paints a misleading picture. Employment fell 87k in July, yet unemployment declined 178k because the labour force contracted by 264k. Participation fell to 61.4% from 61.5% in June and 62.1% in January, while the employment-population ratio slipped to 58.9%. Since January, household employment has fallen 920k and the labour force 1.371m. If January's participation rate of 62.1% was held constant, we would have seen an unemployment rate of 5.1% in the current reading. The decline in unemployment rate therefore reflects reduced participation rather than job creation.

The softer demand for labour was also reflected in lower average hourly earnings at 3.2% YoY, the weakest print since May 2021. This is an important policy signal, as wage growth is typically a key determinant of whether inflation proves sticky. Average weekly hours were unchanged at 34.3. If sustained, softer payrolls could weaken household-income growth and consumer spending.



Source: BLS; OCBC Group Research.

The NFP release strengthens the case for the Fed to stay on hold in the September meeting. Previously, inflation hawks have repeatedly cited the strong labour market as evidence the Fed has room to hike, but a negative NFP will give even the most ardent hawk pause for thought now. This is especially the case as the Fed is expected to revise its core inflation projections lower in September. Upcoming releases include two CPI releases and one more NFP report, and all eyes will turn to the midweek inflation reading as data takes on increasing importance on whether we will see a Fed rate hike before the end of the year. The house call is for the Fed to stay the course and keep rates unchanged.

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