2026-8-8

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WSJ Print Edition

Fewer Workers Keep Unemployment Low

BY JUSTIN LAHART

This week's anemic employment report rekindled a burning question for the U.S. economy: How many new jobs does it actually need?

The Labor Department on Friday reported that the U.S. shed 23,000 jobs in July, and it also lowered its May and June figures. With that, the data now show the economy added 44,000 jobs a month over the past six months. That isn't as weak as the back half of last year, but it is far cry from what people used to think of as healthy.

Yet the unemployment rate has fallen to 4.1% from 4.4% this year. Note That is an indication the U.S. might not need to generate that many jobs to keep up with a dwindling supply of new workers. Note

The youngest of the baby boomers are turning 62 this year—eligible for Social Security retirement benefits—while there is a low supply of younger, U.S.-born workers to take their place. Meanwhile, President Trump's immigration crackdown has limited the

supply of foreign-born people entering the workforce. Note

Some economists expect more of the same in the months ahead. Note

"My guess would be that the rest of the year will, if anything, see slower jobs growth than what we've seen so far," said the American Enterprise Institute's Stan Veuger. In joint work with Brookings Institution economists Wendy Edelberg and Tara Watson, Veuger estimated that the economy only needs to add about 15,000 jobs a month to keep the unemployment rate steady. Note

Some aspects of Friday's report suggest that immigration restrictions are having an effect. Labor-force participa-tion—the share of people ei --ther working or actively seeking work—has weakened across a broad range of age groups. That "is consistent with the immigration-headwinds narrative," wrote Barclays economists on Friday.

Moreover, the unemployment rate among the foreignborn population slipped to 3.2%, adjusting for seasonal swings, from 4% in January, according to Haver Analytics. That could be because those foreign-born workers who are engaged in the labor market— for example, those with green cards—are having an easier time securing a job.

Construction, which employs a lot of immigrant workers, added 22,000 jobs last month, with gains concentrated in the specialty-trade contracting work that continues to benefit from the AI buildout. But leisure and hospitality— also highly immigrant- dependent—shed 40,000 jobs.

To an extent, a smaller supply of potential workers suggests that the labor market can be considered healthy even if there aren't as many jobs getting created as in the past. That is one message from the low unemployment rate.

For the overall U.S. economy, it could be more of a mixed bag. That is because the economy relies on two big engines in the labor market: growth in the workforce, and growth in how much workers get done, or productivity.

The aging population, and the workforce the U.S. will need to support them, creates particular urgency. There are now about 66 million people living in the U.S. who are 65 or older, according to Congressional Budget Office estimates. In 10 years, the CBO projects that will increase to 78 million.

AI could help: One of the few things economists generally agree on about the new technology is that it will boost productivity. But they also generally think those productivity increases aren't showing up broadly thus far.

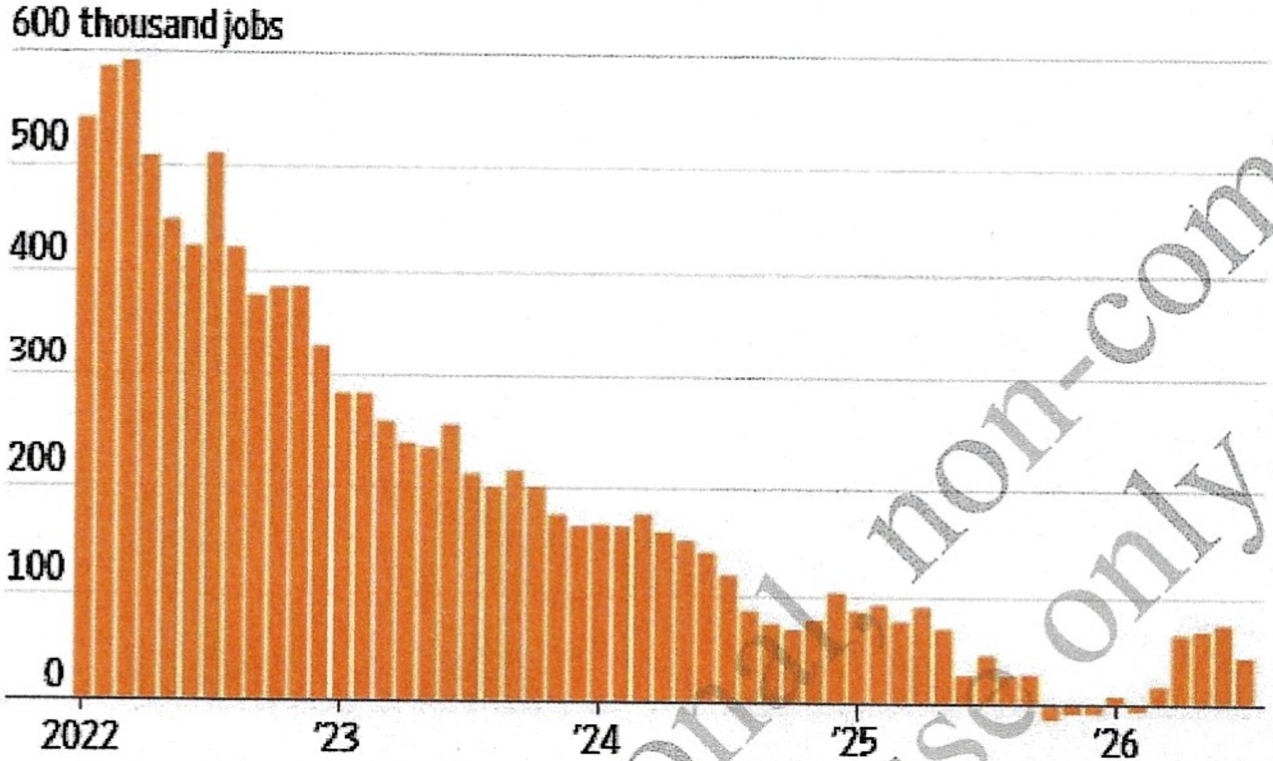
Few workers are using AI intensively. And while the Labor Department has registered a productivity pickup in recent years, Barclays economists argue this is probably just an artifact of the whipsawing of the labor market following the Covid-19 shock. Even though AI investment has been occurring at a breakneck pace, it takes time for workers and businesses to adapt to a new technology: You can't just hand somebody a nail gun and expect them to know how to use it.

That could mean that, for the next few years at least, the economy might not be able to grow very quickly, Or at least not without the unemployment rate going even lower, with the risk that a tightening labor market starts pushing inflation higher.

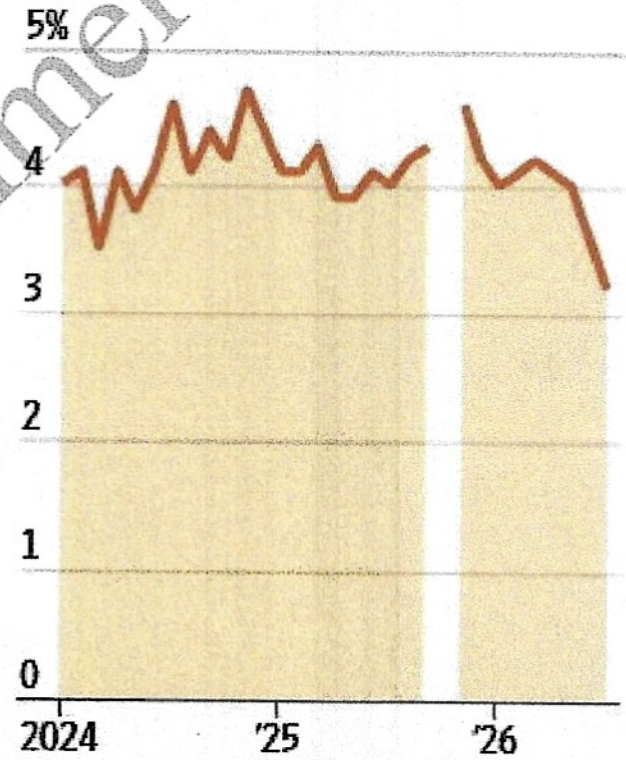
The alternative might be for the U.S. to expand its labor pool. Japan, for example, has struggled with its aging population, but it has succeeded in bringing more women into the workforce. The share of women aged 25 to 54 in Japan working or actively seeking work has lately been 86% versus about 67% in 2000.

In the U.S., labor-force participation for women aged 25 to 54 went from a bit less than 77% in 2000 to 77.8% as of July.

Average monthly change in employment from six months earlier



Foreign-born unemployment rate*



*Seasonally adjusted by Haver Analytics; October 2025 data not collected during government shutdown
Note: Seasonally adjusted

Source: Labor Department

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Jobs Shrink In New Test For Economy

BY MATT GROSSMAN

The U.S. labor market shed jobs in July, an unexpected contraction likely to renew questions about the economy's fundamental strength at a time when it is facing elevated inflation.

The Labor Department's July jobs report showed the economy lost 23,000 jobs last month, a big shortfall versus the gain of 83,000 that economists surveyed by The Wall Street Journal expected. Revisions to May and June payrolls numbers showed the economy added 103,000 fewer jobs in those two months.

The soft jobs number prompted investors to scale back expectations for an interest- rate increase by the Federal Reserve at its next meeting. The S&P 500 rose 0.6% to a record Friday, while the Dow Jones Industrial Average gained 151 points, or 0.3%. The Nasdaq composite climbed 1.3%. Treasury yields edged

lower Friday.

More Americans stepped back from the labor market entirely, according to the Labor Department's monthly survey of households. As a result, the unemployment rate eased to 4.1%, from 4.2% in June, even though fewer people were working.

The sizable pullback in hiring marked a shift for a labor market that appeared on the upswing earlier this year. Elevated inflation is likely to remain the Federal Reserve's primary concern, however.

Government-job losses pulled July's numbers into negative territory. But private-sector hiring made a weak showing as well. Overall, private employers added 30,000 jobs.

In a bright spot likely reflecting the boom in data centers, the construction sector added 22,000 jobs last month. Manufacturing gained 5,000. But leisure and hospitality employers cut 40,000 workers— after cutting even more in June—while retailers shed more than 19,000 employees.

Private-sector education and healthcare jobs grew by 25,000, a relatively poor result for what has been a big source of new jobs over the past year.

Though unemployment remains low, economists—who were expecting strong July hiring—saw little to cheer in the latest jobs figures. "The July employment report was flat-out weak," Chris Low, chief economist at FHN Financial, wrote in a note to clients.

Eric Winograd, an economist at AllianceBernstein, said statistical noise likely pulled down government-job totals and might explain some of July's weakness. But the big downward revisions pointed to broader concerns.

"July is a month with massive seasonal adjustments, but you can't explain away the downward revisions to May and June quite as well," Winograd said.

Over the past two months, the labor force fell by nearly a million workers, a large decline for which economists haven't yet pinned down a clear cause. Faster retirements or the Trump administration's immigration crackdown are natural suspects, but many analysts think those factors aren't the full story.

The trend has pulled down the unemployment rate, because it means fewer people are competing for limited available jobs. It is a mixed blessing at best because a smaller workforce limits how much the economy can grow.

The July report, and downward revisions, left the job market looking suddenly shakier and could give Fed officials pause before pressing forward with a September rate increase some were considering. The numbers paint an ambiguous picture for the central bank. It aims for lower unemployment, but last month, unemployment fell for the wrong reasons.

Elevated inflation is likely to remain the Fed's main focus for now. It led three officials to dissent in favor of a rate increase at the Fed's meeting last month, and others more recently suggested a rate increase could be the best next move.

On Friday, traders slightly pared back their bets that the Fed will raise rates next month. Before that meeting, the Fed will get plenty of additional data to consider, including another month of jobmarket numbers and July and August inflation stats.

Kevin Warsh, the Fed's chairman since May, has said little about his read of the labor market, in keeping with his philosophy that investors should form their own judgments about economic fundamentals. Before Friday's data, other officials argued that a sounder job market should make the Fed comfortable with raising rates if needed.

"Next week's inflation report is going to be quite important for the Fed," said Satyam Panday, chief U.S. economist at S&P Global Ratings.

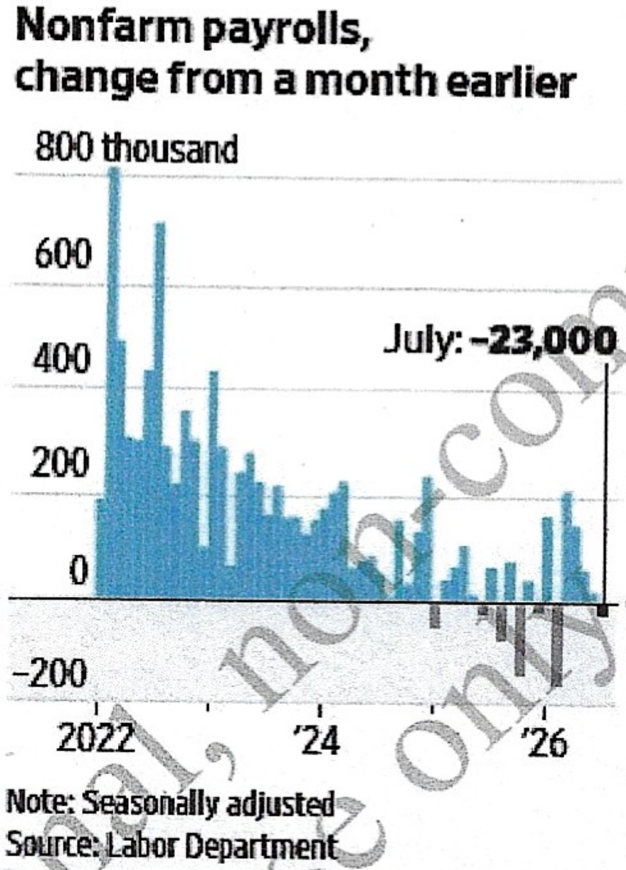
Friday's report marks the second straight year that the July numbers included substantial negative revisions to previous months' data. When the July 2025 data were published, the May and June totals were revised down by a combined 285,000, leading President Trump to fire the commissioner of the Labor Department's statistics agency, Erika McEntarfer, hours later.

Monthly jobs revisions are a routine but frustrating reality for economists. They are necessary because many of the roughly 125,000 employers surveyed monthly about staffing totals send in their responses late, if at all. A second straight year with big negative summertime revisions could send economists searching for a deeper statistical explanation for the pattern.

Even before Friday, Americans were saying they were unsettled about the labor market. Subdued hiring and layoffs left many feeling stuck.

In recent months, more than a quarter of the unemployed have been looking for work for more than six months. That number declined in July, which can sometimes mean that people stuck in long, frustrating job searches have given up altogether.

In a July consumer survey from the Conference Board, a research group, 24.6% said jobs seem plentiful, while 21.5% said they are hard to get—the least favorable split since 2021.


Nonfarm payrolls,
change from a month earlier
800 thousand
600
400
200
0
−200
July: −23,000
2022
'24
'26
Note: Seasonally adjusted
Source: Labor Department