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# US Labor Market Slows Sharply, Raising Concerns Over Economic Stability

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Job creation in the United States slowed significantly in July, signaling growing weakness in the labor market and raising concerns about the broader direction of the economy. According to the U.S. Department of Labor, only 73,000 nonfarm jobs were added last month, far short of the expected 110,000. Compounding the slowdown, job growth figures for May and June were revised downward by a combined 258,000, marking the weakest three-month stretch of employment gains since the COVID-19 pandemic.

The revised data reveals that May saw only 19,000 jobs added, while June recorded just 14,000. These figures reflect a labor market that is not collapsing, but clearly under strain. Christopher Rupkey, chief economist at FWDBONDS, described the situation to Reuters as a market “badly wounded,” suggesting that the slowdown could lead to broader consequences for the economy. “The door to a Fed rate cut in September just got opened a crack wider,” Rupkey said.

The national unemployment rate ticked up to 4.2% in July, up from 4.1% the previous month. While the Federal Reserve left its target interest rate unchanged at 4.25% to 4.50% this week, the disappointing jobs report may pressure policymakers to reconsider that stance. Markets have already begun factoring in the possibility of a rate cut in September, and additional clarity is expected when the Bureau of Labor Statistics releases its benchmark payroll revisions in the coming weeks.

The slowdown comes as President Donald Trump’s economic policies, particularly his trade and immigration strategies, continue to shape the employment landscape. Just days before the labor report, the administration imposed new 35% tariffs on Canadian goods and raised duties on products from several other countries. These protectionist moves, aimed at bolstering domestic industries, are raising input costs and placing pressure on companies’ ability to hire and invest.

In tandem, stepped-up immigration enforcement has tightened the labor supply. The number of foreign-born workers fell by 341,000 in July, contributing to a third consecutive monthly decline in labor force participation, which now sits at 62.2%. Michael Gapen, chief U.S. economist at Morgan Stanley, told Reuters that the decline in participation could have pushed the unemployment rate even higher. “Immigration restrictions have and will continue to have a chilling effect on participation,” Gapen said.

While sectors such as healthcare and social assistance added 73,300 jobs in July, many others saw declines. Retail and financial services made minor gains, but job losses were reported in manufacturing, wholesale trade, and professional services. Federal employment also dropped by 12,000 last month and is down 84,000 since January. Notably, the recent Supreme Court ruling allowing for mass federal layoffs has further contributed to workforce anxiety.

Another point of concern is the growing number of part-time workers and long-term unemployed. The median duration of unemployment rose to 10.2 weeks. Meanwhile, federal agencies have come under fire, with former Bureau of Labor Statistics Commissioner Erika McEntarfer being dismissed by President Trump, who accused her, without providing evidence, of manipulating employment data, according to Reuters.

The current economic climate remains uncertain for businesses. The effective U.S. tariff rate is now the highest since the 1930s, hampering companies' ability to plan for the future. Domestic demand is weakening, with consumer spending in the second quarter growing at its slowest pace in two and a half years. Joseph Brusuelas, chief economist at RSM US, stated that "stagflation is the best description of the domestic economy" as the nation heads into the latter half of the year.

Financial markets appear to be reacting accordingly. Stocks traded lower, the U.S. dollar weakened, and Treasury yields fell following the release of the employment data. The signals point to growing unease among investors about the path ahead. With Trump doubling down on his trade-first approach and the Federal Reserve walking a fine line, the labor market's trajectory may carry significant weight in both economic and political terms.

All eyes will now turn to the next jobs report, due September 5. The data will be pivotal not only for Federal Reserve policy but also in shaping public perception as the 2025 election year approaches.