Commerce Trust Market Brief with Scott Colbert
What Recent Jobs Data Tells Us About the Economy
August 4, 2025

Scott Colbert: Good morning. It's Monday, August 4th. The markets are open and trending positively after last Friday's rather tough market, based upon the weak employment statistics. The S&P 500 (Index) so far this year is up 6.85%. Small-cap (capitalization) stocks, though, are in negative territory after last week's 4% loss. The Russell 2000 (Index) is down now 2.11% on a year-to-date basis.

International stocks remain the clear winners. Large-cap stocks up over 17% (as measured by the MSCI EAFE Index) and emerging market stocks up almost 16% (as measured by the MSCI Emerging Market Index) on a year-to-date basis. And bonds have generally provided a positive return, with interest rates declining a little bit this year.

The Bloomberg Aggregate (Index), the largest measure of the taxable fixed income market, investment grade fixed income market, is up 4.59%. Munis (municipal bonds) are the clear laggard, just about flat on a year-to-date basis (as measured by the Bloomberg Municipal Index). Although Munis last year, on a relative basis, had a much more positive return than the broad fixed income bond market.

Clearly, everyone is having a harder time determining the underlying trend in economic growth. This is probably due to the big three impacts that are going on at crosscurrents, trying to decipher all the recent economic statistics. Number one are the trade and trade policies enacted by the administration, and particularly the new tariffs. Number two is likely to be the change in immigration. And number three would be the fiscal policy, particularly that associated with the recent passage of the so-called "Big Bill" (One Big Beautiful Bill Act).

Rather than trying to disassociate all these economic trends from the underlying growth rate of the economy. We do have some pretty good statistics to take a look at that tell us that the economy is, in general, slowing. We recently had an employment report, and in July, we only created 73,000 jobs. And that is much less than the expectation of about 110,000 jobs that the market was expecting to be created.

On top of that, there were revised May and June job reports that showed much less job growth than we had originally thought. So far, on a year-to-date basis, job growth had been averaging about 130,000 per month. But with these revisions, it's fallen now to a rather weak 85,000 jobs per month.

While it's clear the job growth is cooling, it's often distorted by seasonal adjustments and, of course, timings on the business surveys that generate them. We tend to like to look at year-over-year job growth. At the beginning of the year, it was pretty clear that year-over-year job growth was fairly strong, increasing as many as 2+ million jobs on a year-over-year basis. But that trend has been cooling, and we're growing jobs probably closer to something like 1 to 1.5 million jobs per year on a year-over-year basis.

Now, 1.5 million job growth is still pretty strong. There are about 160 million jobs in the country. So if we're having close to something like a million and a half jobs created, that's almost an additional 1% in employment. Add on to that, of course, wage and salary growth of something closer to 4%, and that's nearly 5% more money for consumers to spend. And of course, consumer spending largely drives the U.S. economy forward.

While we tend to focus on the demand for labor and thus job growth, we often forget about the supply of labor, and the supply of labor has been relatively constrained recently. Of course, with the slowdown in immigration and our demographics, with more and more of the baby boom generation retiring. In fact, the Census Bureau would suggest that over the next 12 months, we're likely to see a decrease in the number of 18- to 65-year-olds in this country, the prime working population. And as such, despite the slowdown in employment growth, we've seen a rather remarkably steady state unemployment rate ranging between 4% to 4.2% over the last 12 months.

Clearly, we know the economy is cooling when we take a step back and look at nonresidential construction spending. We can see that it peaked almost two years ago at about $2.2 trillion per year and has fallen recently and is falling at about a 3% pace now on a year-over-year basis. And of course, the nominal statistics show economic activity slowing as well.

Year-over-year real growth now is less than 5%. And when you take inflation away from that, real growth has cooled to about 2% despite this year's rather bouncy up and down first quarter and second quarter gross statistics impacted tremendously by the change in inventories and imports and exports.

And to even further refine that thought of economic slowdown. I like to take imports and exports out of the equation, and we call this a real final domestic demand. And you can see that basically aggregate spending in the United States, when we take imports and exports out of the equation, has also been cooling quarter by quarter by quarter.

This brings us to the Federal Reserve, who no doubt understands that the economy is cooling, but they still see the labor supply relatively in balance as measured by the unemployment rate. Offsetting this slowdown in economic activity, of course, is the likely increase in prices due to tariffs. We would estimate that about two-tenths of a percent of the CPI increase on a year-over-year basis is being driven right now by tariffs. Fortunately, this increase has been muted.

A recent Goldman Sachs report would suggest that only about 45% of the tariff price increases are being passed along to consumers. The rest of it is being absorbed either by the exporter, who is lowering their price of the goods when they export them to the United States, or the domestic sellers who are absorbing those price increases in their margins.

Still, though, we do believe that the Federal Reserve will eventually be lowering rates. The market would expect at least two rate cuts by the end of this year, and perhaps as many as an additional three by next year. We'll be back in several weeks to discuss how all these events are impacting the financial markets.

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