

WEEK ENDED September 12, 2025

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The Labor Market That Wasn't

"Without labor nothing prospers."

– Sophocles

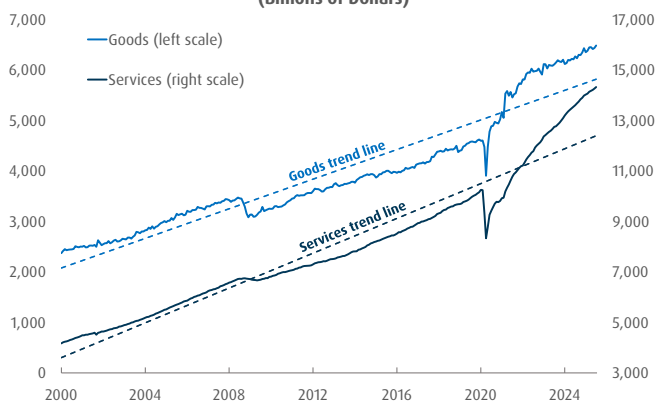
The Through Line: Capital markets absorbed Tuesday's sizeable downward revision to jobs numbers with a lot more grace than they did a month ago when the run rate of a similar series was also sharply reduced. This week, we dive into the nuances of why data matter; challenges to collection and analysis that have emerged in recent years; and what the tea leaves could be telling us heading into 2026.

"The pandemic broke my model"

Gatherers and users of economic statistics have had a tough go of it since the COVID-19 pandemic began in early 2020. Distortions of historic proportions muddled the tracking of everything from restaurant visits and airline flights (both went to virtually zero) to the number of individuals filing weekly unemployment claims (which briefly topped two million).

While interim distortions were to be expected, prognosticators have been flummoxed by the activity that bent and hasn't reverted. Take goods and services expenditures. Flush with pandemic stimulus checks but unable to frequent gyms, restaurants or hotels (a.k.a. services), we spent on home gym equipment, new furniture and crafting outdoor living spaces (goods). Then came the reopening reversion spending on travel, concerts and destination weddings. Long after we should've exhausted pent-up demand, though, consumption for both goods and services remains far above pre-pandemic trendlines.

U.S. Consumption: Goods vs. Services
(Billions of Dollars)



Source: Federal Reserve Bank of St. Louis (2025)

What's the point?

Gathering facts on the economy matters. Various data sets help frame perceptions of the health of the broad economy and/or undergird specific costs/price levels. They also heavily influence **business decisions** (should we start a new product line, up our R&D budget or cut back on advertising?); **consumer choices** (can we afford to buy a car, move to a new town or have a child?); and even **government programs** (social security cost-of-living increases and tax-bracket adjustments). **Capital markets** also monitor various data sets carefully for hints re how they might potentially influence fiscal (a.k.a. government) and monetary (central bank) policy.

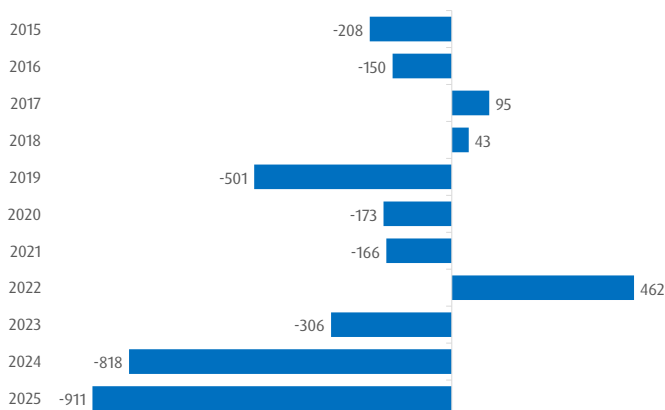
Employment data is of particular importance to virtually everyone. Pundits slice and dice numbers in a variety of ways (e.g., jobs added, layoffs, percentage of people looking for work, participation rate, confidence in finding a new job) in order to construct a full-bodied view of labor market health. **People with jobs tend to spend, and consumption accounts for more than two-thirds of U.S. economic activity.**

Not so strong after all

Questions around the accuracy of – and messages contained in – various data sets have come to a head in recent days, with Bureau of Labor Statistics (BLS) employment data topping the list. The information contained in the series – reported on the first Friday of each month as the Non-farm payrolls report – is compiled from a survey sample of thousands of businesses, a process explained recently by our BMO Economics colleagues ([WSP - U.S. Data Quality - in the Line of Fire](#)). Responding to the survey is voluntary; recipients have three months to return their answers.

BLS response rates have been increasingly delayed in recent years, which has led to wider swings in revisions. On a semi-annual basis, the BLS compares the sample set against actual data on virtually all business and publishes yet another set of revisions covering a prior 12-month period. The preliminary round published this past Tuesday (covering the 12 months ended March 2025) revealed over 900,000 fewer jobs than had originally been reported. The run rate of monthly jobs added over that period was cut in half. It is now closer to 70,000 versus the 140,000 previously reported, indicating the labor market was less robust than most (including us) had believed. Core points to note:

Preliminary BLS Benchmark Payrolls Revision
(thousands)



Revisions for March of respective year. Source: Bloomberg L.P. (2025).

- The revisions imply that the labor market entered the spring/summer months (when trade, policy, geopolitical and market anxiety were most intense) in a more fragile state than previously recognized. This lends more credence to the flagging sentiment numbers prevalent earlier in the year.
- Though large in absolute terms, this reduction amounts to less than 1% of the total workforce.ⁱ
- Like all employment figures, the numbers are backward looking — and may have some or no bearing on current and/or future events.
- **These numbers do not alter the solid GDP growth and tapering inflation readings logged over that same time frame. In fact, that level of growth distributed across fewer workers would imply productivity growth was *higher* than reported over the measurement period. This supports the thesis of resiliency we have emphasized throughout the year's often turbulent headlines.**

What now?

In the near term: stocks and bonds took last Friday's NFP and Tuesday's downward revisions to BLS data in stride. Many global stock indexes continued to climb. Some hit new highs – e.g., the S&P 500, the S&P/TSX and NASDAQ. Bond yields moved down, including the 30-year U.S. T-bond which touched 5% a week ago but stood more recently at 4.68%. Shorter-term bond auctions experienced solid demand, allowing for lower yields than had been anticipated. The 10-year note (which influences mortgage rates) dropped to 4.03%. Futures markets have priced in a near

certainty that the U.S. Federal Open Market Committee will resume its rate-cutting campaign when its two-day meeting ends next Wednesday (9/17). Even after large downward revisions of labor market figures were announced, expectations for a cut of 50 basis points remained muted. This suggests that investors believe Fed funds cuts are more insurance than emergency, and that economic growth can continue. In other words, the Fed is merely adjusting its policy rate toward a less restrictive level.

Over the intermediate term: investors will watch carefully to see if the labor market stabilizes – particularly focusing on the fate of the top 10%. This cohort represents fully half of all spending by consumers (35% of GDP)ⁱⁱ and their activity could be vulnerable if employers step up right-sizing efforts. Top-tier wage earners are often the first to be displaced when companies compress managerial layers or look for the most impactful places to trim costs. Also of note: the November Non-farm payroll report will contain the approximately 150,000 government employees who took the severance package offered in DOGE's early days. Their severance packages run out on September 30, meaning they will show up in October numbers reported on November 7.

On the ledger's constructive side: trade policy is moving toward more clarity than was evident last spring, while investment and reshoring activities could stabilize/boost employment over a wide swath of sectors. Additionally, R&D/construction expensing components of the new tax law could also help. Underpinned by expectations for continued growth in data centers, robotics, cloud migration, infrastructure and reshoring activities and a resumption of the Fed's rate-cutting process, our base case calls for continued moderate growth and steady-to-tapering inflation.

Implications for investors

Understanding the labor market's trajectory is vital to assessing the overall health of the economy, even if accurately *measuring* that trajectory is more challenging than it once was. Despite complications in gathering data and a flurry of policy pivots, markets have been resilient, intently focused on measurable fundamental outcomes (earnings, revenues, purchase orders).

We believe this sturdiness can continue, supported by a more accommodative Fed, pro-growth aspects of the recent tax act, continued moves to deregulate key industries, reshoring activities and an administration that will do what it takes to avoid a slowdown moving into next year's midterm elections.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

Canadian employment declines sharply – The jobs numbers fell by a hefty 65,500 in August following a 40,800 drop the prior month, taking the jobless rate up two ticks to 7.1. This was worse than expected – the weakest jobs report since the pandemic. A two-tick rise in the unemployment rate is especially noteworthy, lifting it above the 7% threshold for the first time since 2016 (aside from the 2020-21 period). We can now trace the start of the trade war back to late January. In those seven months, the economy lost a cumulative 38,500 jobs on net; manufacturing is down 58,100 (or 3%). Meantime, the jobless rate has risen by half a point. All told, this weak report fully reinforces any bias for the Bank of Canada to ease somewhat further, but inflation hasn't quite sounded the all-clear. The upcoming CPI report (September 16) lands a day ahead of the next BoC meeting and looms large. However, the most recent CPI report is firmly on the dovish side of the ledger.

Independence and composition of U.S. Federal Reserve still in the spotlight - Last year Federal Reserve Governor nominee and current Chair of the White House Council of Economic Advisers Stephen Miran co-authored a paper for the Manhattan Institute titled "Reform the Federal Reserve's Governance to Deliver Better Monetary Outcomes." The piece argues that an expansion of the Fed's mandate created mission creep and provided the central bank with unintended powers that lack oversight or accountability. Dr. Miran proposes significant reforms to refocus the quasi-government agency on a narrower set of objectives. Suggestions include shortening Fed governors' terms, removing non-monetary functions such as financial supervision and placing the Fed's operating budget under congressional control. This paper has seemingly become a pillar of the Trump administration's attack on the Federal Reserve. Last week Treasury Secretary Scott Bessent penned a *Wall Street Journal* op-ed that mirrors arguments made in Dr. Miran's paper. Bessent wrote that in the wake of the 2008 financial crisis the Fed's mission extended "into areas traditionally reserved for fiscal authorities, [and] the Fed has blurred the lines between monetary and fiscal policy." He argued this mission creep has produced negative unintended economic consequences and a legacy of forecasting failures that fostered growing wealth inequality and threatened the Fed's independence. Both men contend that simplifying the Fed's mission would place greater responsibility on politicians to make sound fiscal choices. In contrast, Citadel CEO Ken Griffin and University of Chicago Professor Anil Kashyap wrote in the *WSJ* this week, "Trump's strategy of publicly criticizing the Fed, suggesting dismissal of governors, and pressuring for more permissive inflation stances carries a steep cost," warning that a loss of Fed independence and credibility could threaten long-term U.S. financial stability.

Prepping for next week's Fed meeting – U.S. Federal Reserve Chair Jerome Powell said at last month's Jackson Hole Economic Policy Symposium the "balance of risks appears to be shifting." Inflationary pressure has undershot expectations to date and labor market stresses are on the rise. Since then, the preponderance of economic data has provided the data-dependent Fed with confirmation of this outlook and the impetus to launch a new monetary easing cycle. The futures-market-implied odds of a rate cut at next week's Federal Open Market Committee meeting have reached 100%. Some are even forecasting a cut of 50 basis points to kick things off (not our base case). Markets now believe three consecutive rate cuts from the Fed are highly likely.

U.S. Producer Price Index tamer than expected – On Wednesday, the Bureau of Labor Statistics released the monthly Producer Price Index (PPI) for final demand. Headline and core (ex-food and fuel) producer inflation both came in at -0.1% month over month versus the Bloomberg consensus estimate of +0.3% month over month. The decline was led by a 0.2% drop in services prices, while goods prices rose 0.1%. Equity markets rallied and bond yields contracted on the better-than-anticipated inflation news. Despite the positive investor response, core PPI, including trade services, rose 2.8% for the 12 months ending August, the second-largest increase of the year. This suggests wholesalers and retailers are absorbing inflationary pressure rather than passing it on. That implies margin pressure is building and a pass-through to consumers could still materialize in the future.

Canada's merchandise trade deficit – In July, Canada's merchandise trade deficit narrowed to C\$4.9 billion from C\$6.0 billion in June. Exports rose 0.9%, extending a three-month string of modest gains following April's plunge. Meanwhile, industrial machinery and equipment (-18.8%) drove a small decline in imports (-0.7%) following a large one-time order to an oil project in Newfoundland and Labrador in June. Partially offsetting this drop were sizeable increases in other categories, including aircraft equipment and parts (+11.0%), farm and fishing (+7.8%), and energy (+3.9%). The July trade report was subject to some one-time factors and adjustments that highlight the volatility of these figures in any given month. Still, the underlying flows were relatively decent in the context of ongoing trade uncertainty and could set the stage for modest Q3 economic growth.

Next week

A week rich in economic data on manufacturing, sales and inventories. On Wednesday, all eyes and ears will be focused on central bank rate decisions in the U.S. and Canada – or, more accurately, on the press conferences that will follow both decisions. Investors will be seeking hints re the number and timing of cuts for the remainder of 2025 and beyond.

Monday 9/15 – U.S. Empire State manufacturing index | Canada Housing starts, Inflation rate, CPI

Tuesday 9/16 – U.S. retail sales, Import price index, Industrial production, capacity utilization, Business inventories

Wednesday 9/17 – U.S. FOMC Interest rate decision and press conference, Housing starts and building permits | Canada BoC Interest rate decision and press conference

Thursday 9/18 – U.S. Weekly jobless claims, Philly Fed manufacturing survey, Leading Economic Indicators | Canada CFIB Business barometer

Friday 9/19 – Canada Retail sales

Data scorecard as of September 12, 2025

Equity Market Total Returns						
	9/10/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,532	0.8%	12.1%	25.0%	26.3%	-18.1%
NASDAQ	21,886	0.9%	13.9%	29.6%	44.7%	-32.5%
DOW	45,491	0.2%	8.3%	15.0%	16.2%	-6.9%
Russell 2000	2,378	-0.5%	7.6%	11.5%	16.9%	-20.5%
S&P/TSX	29,179	0.5%	20.2%	21.7%	11.8%	-5.8%
MSCI EAFE	10,017	0.7%	23.9%	3.8%	18.2%	-14.5%
MSCI EM	710	2.5%	23.8%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.4%	6.3%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.3%	5.7%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.5%	7.0%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.1%	6.8%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.5%	4.1%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.7%	2.4%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.7%	1.9%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.5%	3.6%	6.9%	8.2%	-9.5%
Government Bond Yields						
	9/10/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.05%	4.23%	4.23%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.17%	3.37%	3.27%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.63%	4.72%	4.49%	4.56%	3.53%	3.66%
German 10-Year Bund	2.65%	2.72%	2.61%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.56%	1.60%	1.43%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	9/10/2025 Level	WTD	YTD	2024	2023	2022
USD Index	97.78	0.0%	-9.9%	7.1%	-2.1%	8.2%
CAD:USD	\$0.72	-0.2%	3.8%	-7.9%	2.3%	-6.7%
Bitcoin	\$113,618.81	1.8%	21.2%	120.5%	157.0%	-64.3%
Gold	\$3,640.75	1.5%	38.7%	27.2%	13.1%	-0.3%
Oil (WTI)	\$63.67	2.9%	-11.2%	0.1%	-10.7%	6.7%

*Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average (“DOW”) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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ⁱ Current Employment Statistics Preliminary Benchmark (National) Summary - 2025 A01 Results

ⁱⁱ U.S. Economy Being Powered by the Richest 10% of Americans - WSJ