Reina Report – Labor Cracks Deepen, Fed Faces the Wall

August 2, 2025



This week marked a clear turning point in the labor narrative. While Jerome Powell continued to describe the labor market as "solid," the data—and now even the Fed's own members—strongly disagree.

- Non-Farm Payrolls for July came in at just 73K, well below the 110K expected. But the bigger story lies in the massive downward revisions:
 - May revised from $139K \rightarrow 19K$
 - June revised from 147K → 14K
- These revisions reveal that what was previously sold as "resilient" labor strength has been **stagnation or outright contraction**.
- Unemployment Rate ticked up to 4.2%, but labor force participation declined to 62.2%, meaning the realistic unemployment rate may exceed 5.1% when adjusting for dropouts.
- Fed Governors Bowman and Waller are now publicly calling for 150bps in rate cuts, citing growing downside risks. Meanwhile, Powell remains hawkish and out of sync with the data.
- The 2Y Treasury yield collapsed over 20bps, confirming a deepening pivot in rate expectations.

Interpretation: The Fed has a choice to make—ignore the data and repeat 2024's mistake, or act decisively to defend the labor market before it unravels further. Based on market action, investors expect the latter. Whether Powell agrees remains unclear.

Labor Market Breakdown

III Establishment vs. Household Survey

- Household survey: -300K jobs in July after being down big in May and barely rebounding in June.
- Establishment survey revisions caught up to household data—both now show clear deterioration.
- Full-time jobs down 626,000 over the past three months.
- Participation Rate: 62.2% (new low)
- Estimated actual unemployed: ~9 million, not the official 7.2 million

Wage & Hours Trends

- Average Weekly Hours remain weak, despite a slight bounce.
- Wage growth YoY at 3.9%, but real paychecks are shrinking after inflation.

Interpretation: Employers are cutting hours and headcount while preserving current staff—until demand drops further. A classic pre-layoff setup.

Inflation & Fed Watch

III PCE & Core PCE – June

- Core PCE MoM: 0.3% (steady)
- Core PCE YoY: 2.6% (↑ from 2.4%)
- Personal Spending MoM: 0.3%
- **Personal Income MoM:** 0.3% (but prior month revised to -0.4%)

Interpretation: Inflation is sticky, but not re-accelerating. Spending is soft, income is weak, and tariffs are distorting expectations.

Fed Commentary

- Waller: "The policy rate should be ~150bps lower... we must act before labor deterioration worsens."
- **Bowman:** "Underlying growth has slowed markedly... we should proactively hedge and return to neutral."
- **Powell:** Still clinging to "solid" labor market narrative, despite the data collapse.

ISM Manufacturing PMI

- Headline: 48.0 (5th consecutive contraction)
- **Employment Index:** 43.4 (sharp drop)
- New Orders/Backlogs: Still contracting, just at a slower rate
- Comment from ISM: "None of the six largest industries expanded in July."

 Interpretation: The entire industrial economy is stagnating. Hiring comments are outnumbered 2-to-1 by layoff reports.*

Treasury Yield Signals

- **10Y–2Y Spread:** +0.51% (steepening)
- 2Y Yield: plunged 20bps on jobs data
- Market now pricing in:
 - ~90% chance of September rate cut
 - Over 2 cuts by end of year

Possible 50bps cut if data worsens

Interpretation: We're re-entering shock territory. A 50bps cut is on the table. Bond markets see 2024's playbook repeating—only worse.

Real Estate Lens

🏠 Housing Data This Week

- Pending Home Sales MoM (June): -0.8%
- YoY: -2.8%
- Case-Shiller YoY (May): +2.8% (cooling from 3.4%)

Market Dynamics

- Homebuilders now face **9.8 months of supply** (source: Nick Gerli)
- Commercial RE still weakening; demand fading
- Rising unemployment and reduced full-time work will suppress buyer power

Real estate lens: Now is not the time to stretch. If you're an investor, watch for softening in mid-tier markets and rising delinquencies. For buyers, cash is king. For sellers, expect longer days on market.

Market Sentiment & Risk

- CNN Fear & Greed Index: 50 (neutral) dropped massively after Friday's huge job miss
- AAII Bull–Bear Spread: 7.3% (neutral/slightly bullish)
- Gold: Barely off of its all-time highs
- Margin debt: Over \$1 trillion (FINRA, June data)

Interpretation: Sentiment remains elevated, but labor data is cracking. Risk is rising beneath the surface, especially in overleveraged positions.

Summary Outlook

Recession Watch:

- Confirmed cracks in labor
- Full-time jobs collapsing
- True unemployment >5.1%
- ISM & regional PMIs worsening

Policy Outlook:

- Powell: hawkish
- Waller/Bowman: are dissenting and calling for cuts
- Market: expects action by Sept

Yield Outlook:

- Bull steepening continues
- 2Y signals Fed pivot ahead
- Watch for continued Treasury demand

Watchlist:

- More job data coming out on Thursday, August 7th for initial jobless claims
- Two-year yield behavior
- Fed speeches post-labor data

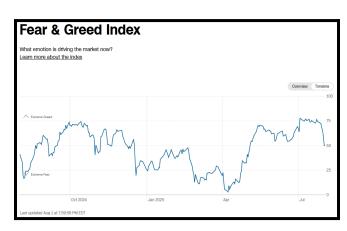
- Layoff announcements + JOLTs hiring rate
- Housing delinquencies and builder cancellations

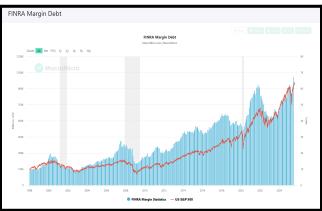
Chart Deck

CNN Fear & Greed Index - Notice the sharp plunge in sentiment on Friday following the jobs report — a rare one-day reversal that broke the recent uptrend in risk appetite. When fear surges this abruptly, it often signals that underlying market confidence was far more fragile than price action suggested.

FINRA Margin Debt - Record-high margin levels reflect a market increasingly driven by speculative risk appetite. This kind of leverage build-up often marks the later stages of a cycle — and historically serves as a reliable topping signal.

2YR/10YR Spread - Following Friday's report, the yield curve steepened sharply, with the spread vaulting back above 0.50 — a level I consider the "shock zone." Historically, when the spread exceeds this threshold, markets become increasingly fragile and vulnerable to abrupt dislocations.







Sources

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- Meet Kevin YouTube (Aug 1 Jobs Breakdown)
- Macro Compass, Jeff Snider & Steve Van Metre commentary
- CME FedWatch Tool: https://www.cmegroup.com/tools-information/fedwatch.html
- FINRA Margin Data: https://www.finra.org/investors/insights/margin-statistics

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