

Dutta's Economic Daily

Labor market cooling continues

Neil Dutta

Builders holding onto too many workers

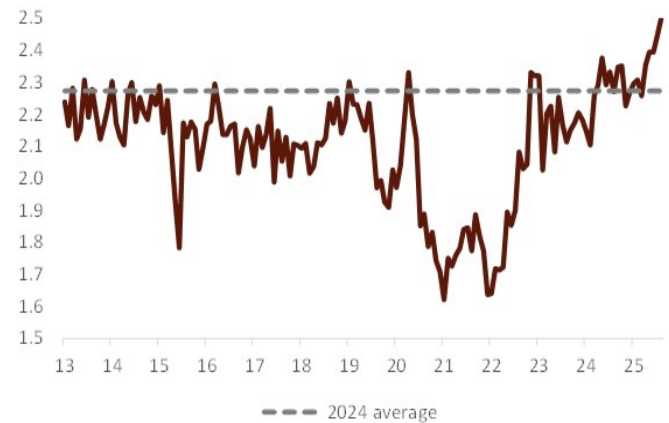
- Residential construction employment is stretched relative to underlying activity. Builders appear to have reached their pivot point on profit margins and are likely in the process of rationalizing their businesses in-line with underlying demand trends. Construction activity is cooling. For builders, this means that it's probably unnecessary to hold onto as many workers as they presently have.
- A crude analysis suggests meaningful downside to residential construction jobs. As of August 2025, the ratio of residential construction payrolls to housing permits stands at 2.5; this is the highest level since 2012. This ratio is about 10% higher than its average in 2024. There's no need to hold onto workers that are not doing anything. To return this ratio to its 2024 average, assuming flat permits from here, implies a decline of 304,000 jobs. Spreading this over year implies a decline of 25,000 jobs per month. This is a meaningful headwind considering private employment is running 30,000 per month to begin with

Home price deceleration continues

- U.S. home prices extended their deceleration in July 2025, with the FHFA seasonally adjusted monthly index declining 0.1% following June's 0.2% drop, while annual appreciation slowed to 2.3%. The S&P CoreLogic Case-Shiller data reinforced this trajectory, with national prices advancing just 1.7% year-over-year and the 20-city composite rising 1.8%, marking the sixth consecutive month of decelerating growth.

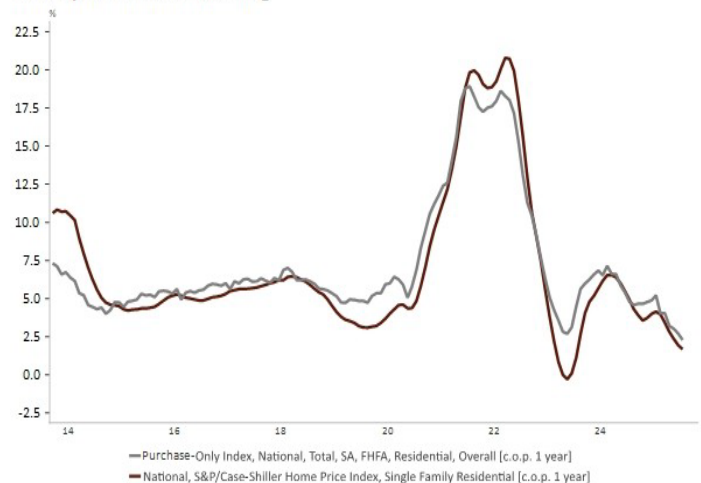
Rightsizing the construction workforce

Residential Construction Payroll Employment (per Building Permit)



Source: Renaissance Macro Research, Haver Analytics

House price momentum fading

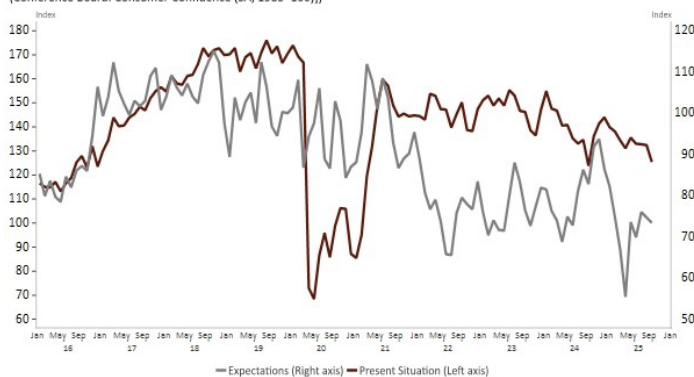


Source: Renaissance Macro Research, Macrobond

- Regional divergence intensified as Northeast and Midwest markets sustained momentum while Sun Belt and West Coast metros continued cooling. New York led appreciation at 6.4%, followed by Chicago at 6.2% and Cleveland at 4.5%, with the Middle Atlantic division posting a 5.1% twelve-month gain. Conversely, seven of twenty Case-Shiller metros recorded year-over-year declines, led by Tampa at -2.8%, San Francisco at -1.9%, and Miami at -1.3%. The Pacific division managed just 0.2% annual growth, the weakest performance nationally, while monthly movements across census divisions ranged from -1.2% in Middle Atlantic to positive 0.3% in East North Central.

Consumer sentiment declines in September

(Conference Board: Consumer Confidence (SA, 1985=100))

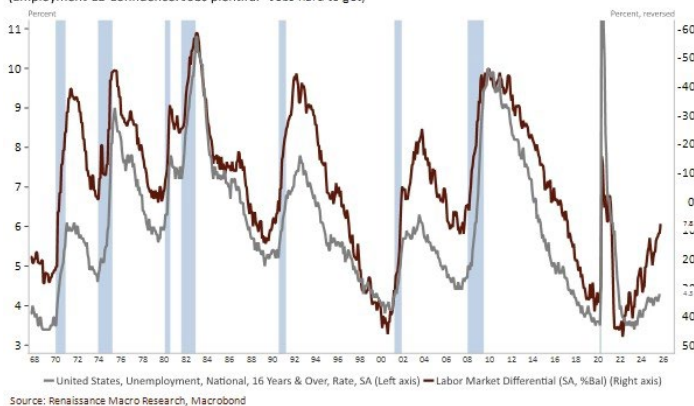


Consumer confidence declines on job market weakness

- US consumer confidence declined in September, falling 3.6 points to a five-month low of 94.2, missing the consensus estimate of 96.0. This decline was driven by mounting concerns over a cooling labor market and the broader economic outlook. The measure of present conditions saw a sharp 7-point drop, hitting its lowest level in a year, while expectations for the next six months also fell, suggesting consumers are increasingly pessimistic about the immediate future.

Labor market differential points to further pressure on unemployment

(Employment CB Confidence: Jobs plentiful - Jobs hard to get)

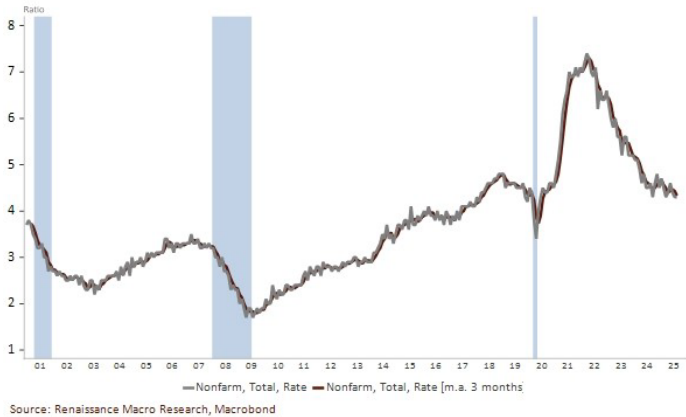


- The most concerning signal comes from the continued, dramatic weakening of the job market indicators. The proportion of consumers saying jobs were "plentiful" declined to its lowest level since February 2021. While the share finding jobs "hard to get" was unchanged, it remains at the highest point in over four years. Consequently, the closely-watched labor differential metric, narrowed to the smallest reading since early 2021. This metric's deterioration supports the Federal Reserve's recent assessment of a "low-hire, low-fire" labor market, indicating that while mass layoffs may be

contained, the availability of new opportunities is rapidly diminishing.

- This economic anxiety is now directly impacting personal financial views. Consumers' perception of their family's current financial situation recorded the largest one-month drop since they began collecting this data in July 2022, with views of their future financial outlook also weakening.

Job openings rate settle in a narrow band after declining from 2022 peak



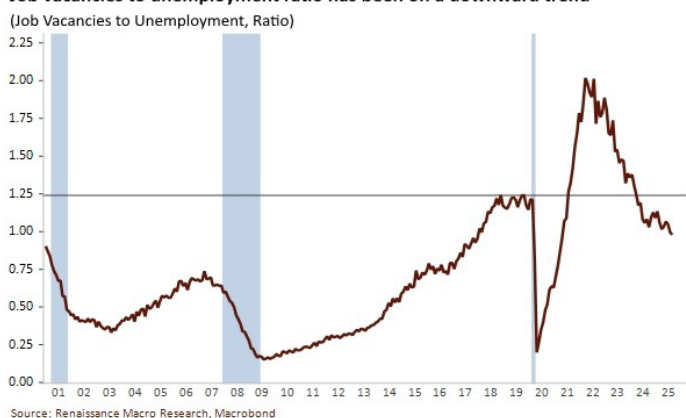
Job openings stagnate as labor demand gradually ebbs

- The August JOLTS report showed labor demand stabilizing at a lower level, with little change in US job openings and subdued hiring. Available positions increased slightly to 7.23 million in August, up from a revised 7.21 million in July. While openings have declined from their early 2022 peak, they have now settled into a narrow band over the past year. The hiring rate edged down to 3.2% in August, reaching its lowest level since June 2024, signaling a gradually ebbing demand for workers. Layoffs, meanwhile, remained unchanged at a low level. Further suggesting a cooling market, the number of people voluntarily quitting their jobs dropped to its lowest level this year. This decline indicates that workers are becoming less confident in their ability to readily find a new position.
- The pickup in openings was led by the accommodation and food services sector, while construction and the federal government posted notable declines. The ratio of vacancies per unemployed worker almost held steady at 1.0. This means that for the second consecutive month, there are now slightly more unemployed people than there are available jobs, a balance last seen in early 2021. This ratio is significantly lower than its 2.0 peak in 2022.

How shutdowns create distortions in employment data

- Government shutdown reveals important nuances in how employment statistics capture labor market

Job vacancies to unemployment ratio has been on a downward trend



disruptions, particularly the divergence between payroll and household survey methodologies. While furloughed federal workers historically have been classified as unemployed on temporary layoff in the household survey—since they were not working during the reference week—they remain counted as employed in the establishment (payroll) survey because they are expected to receive retroactive pay upon resumption. This methodological difference creates a temporary disconnect where the unemployment rate rises while payroll employment remains stable, complicating the interpretation of labor market conditions. In January 2019, approximately 104,000 federal workers were correctly classified as unemployed on temporary layoff, though an additional 153,000 were likely misclassified as employed but absent from work, suggesting the true impact on unemployment was larger than headline figures indicated.

- Looking toward the coming month, a secondary and more permanent headwind faces the federal workforce due to delayed departures from the deferred resignation program. Unlike furloughed employees who are simply awaiting recall, these individuals may now choose to leave permanently in October. This could result in a more sustained decline in federal payrolls compared to the temporary furlough-related fluctuations, particularly if affected workers seek more stable employment in the private sector.

Businesses expect tariffs to increase consumer prices

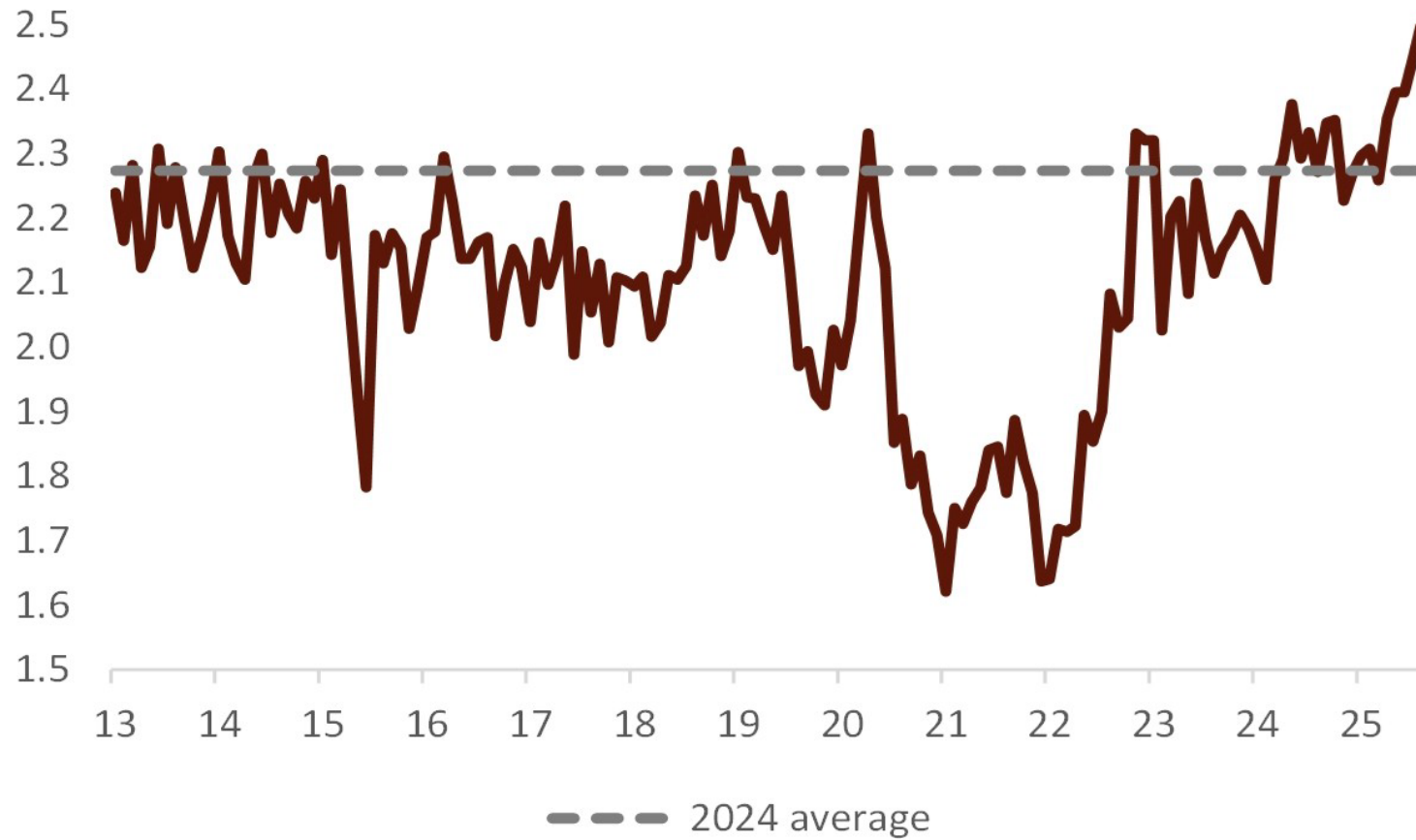
- A recent Boston Fed [paper](#) examined how small and medium-sized businesses (SMBs) responded to tariff policies through a survey conducted from December 2024 to August 2025. The study reveals significant shifts in businesses' tariff expectations and pricing strategies during this period of evolving trade policy. SMBs dramatically increased their expected future

tariff rates from approximately 19% to 25% during the first four months of 2025, while those affected by tariffs reported paying nearly double the average rate in July 2025 (11.4%) compared to January 2025 (6.5%).

- The study found a dramatic increase in the planned pass-through rate—the portion of expected cost increases SMBs plan to pass on to consumers via price hikes. Before April 2025, both importers and nonimporters reported an average pass-through rate of about one-third. By April 2025, importers expected to pass through about two-thirds of their cost increases, and by August 2025, non-importers' pass-through rate had risen to nearly 50%, settling close to the importer rate. The researchers' back-of-the-envelope calculation suggests these dynamics could produce a 0.75% increase in core consumer prices from directly imported consumer goods alone.
- The study identifies expected tariff duration as a powerful driver of pricing decisions. Businesses expecting tariffs to persist for a year or longer plan to pass through as much as three times more of their cost increases compared to firms expecting short-lived tariffs. By August 2025, over 45% of affected SMBs expected cost impacts lasting longer than a year.

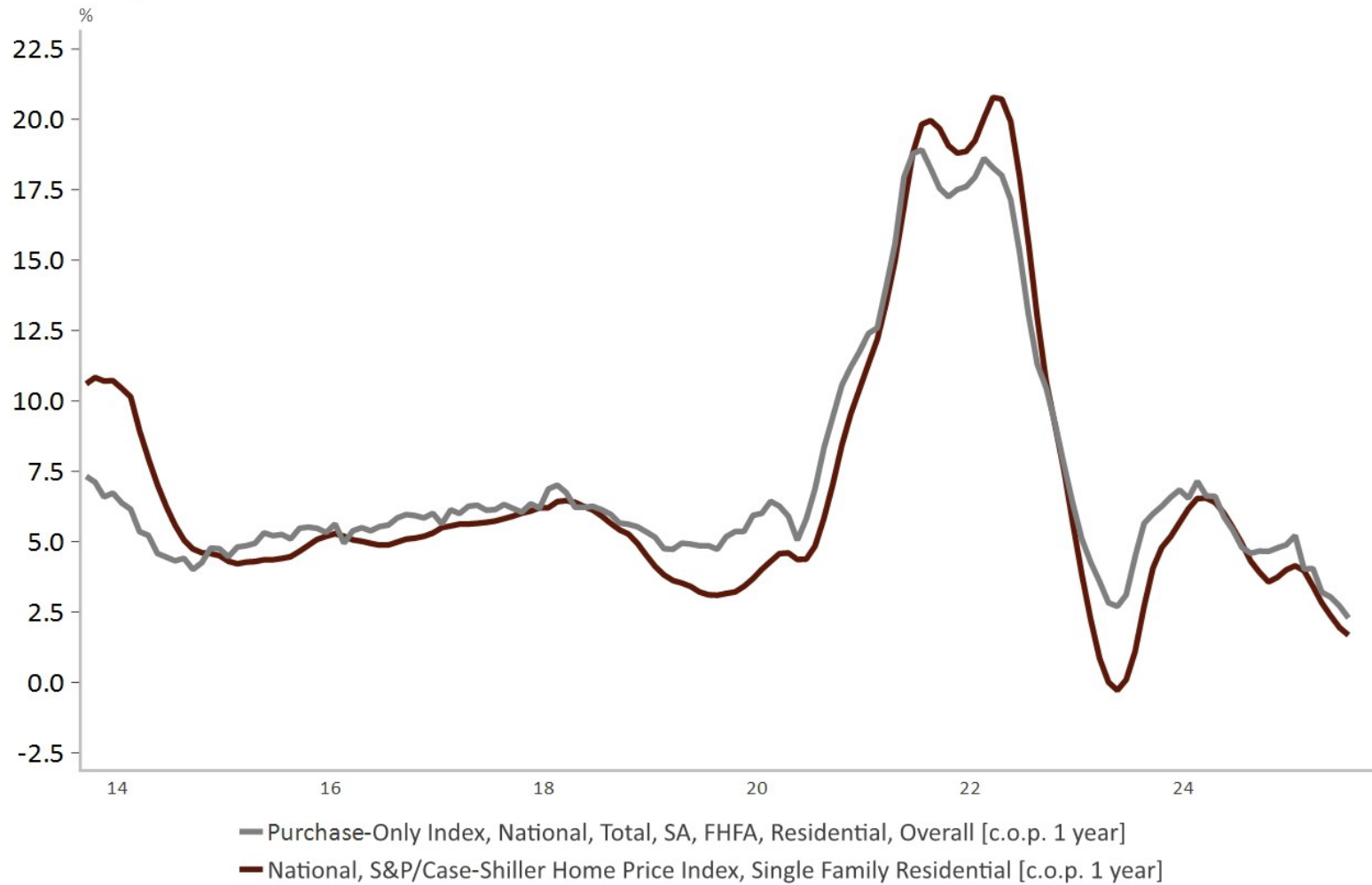
Rightsizing the construction workforce

Residential Construction Payroll Employment (per Building Permit)



Source: Renaissance Macro Research, Haver Analytics

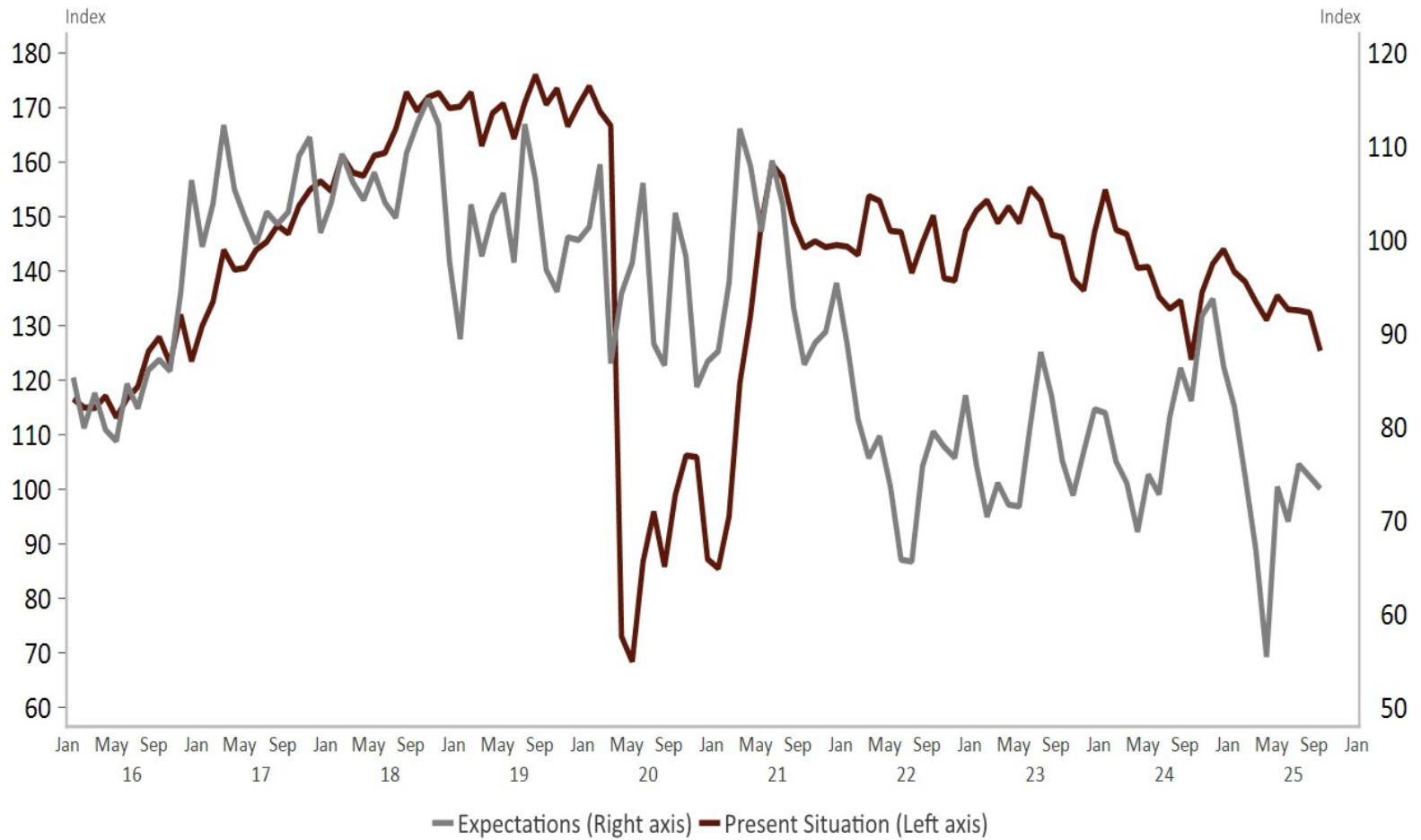
House price momentum fading



Source: Renaissance Macro Research, Macrobond

Consumer sentiment declines in September

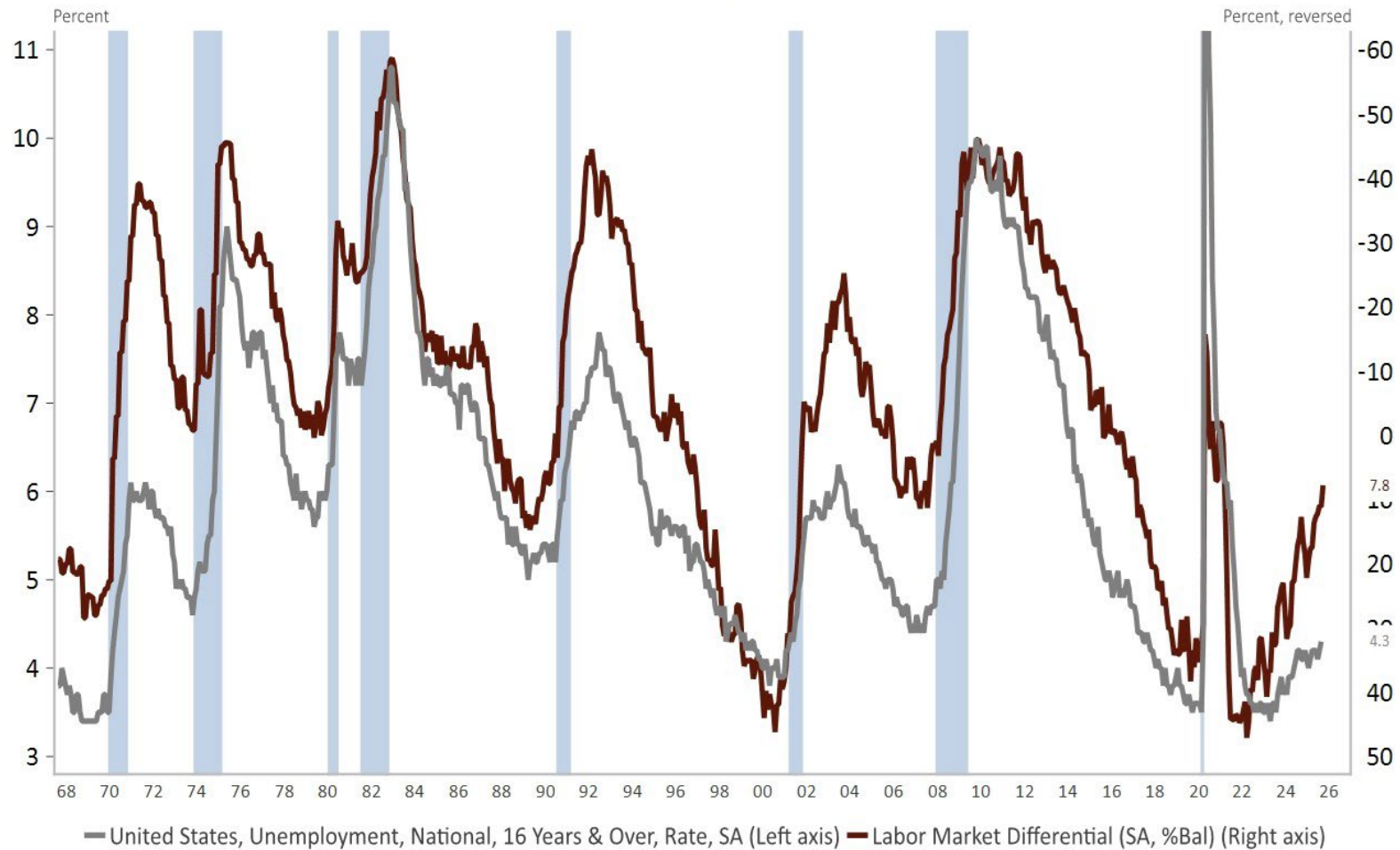
(Conference Board: Consumer Confidence (SA, 1985=100))



Source: Renaissance Macro Research, Macrobond

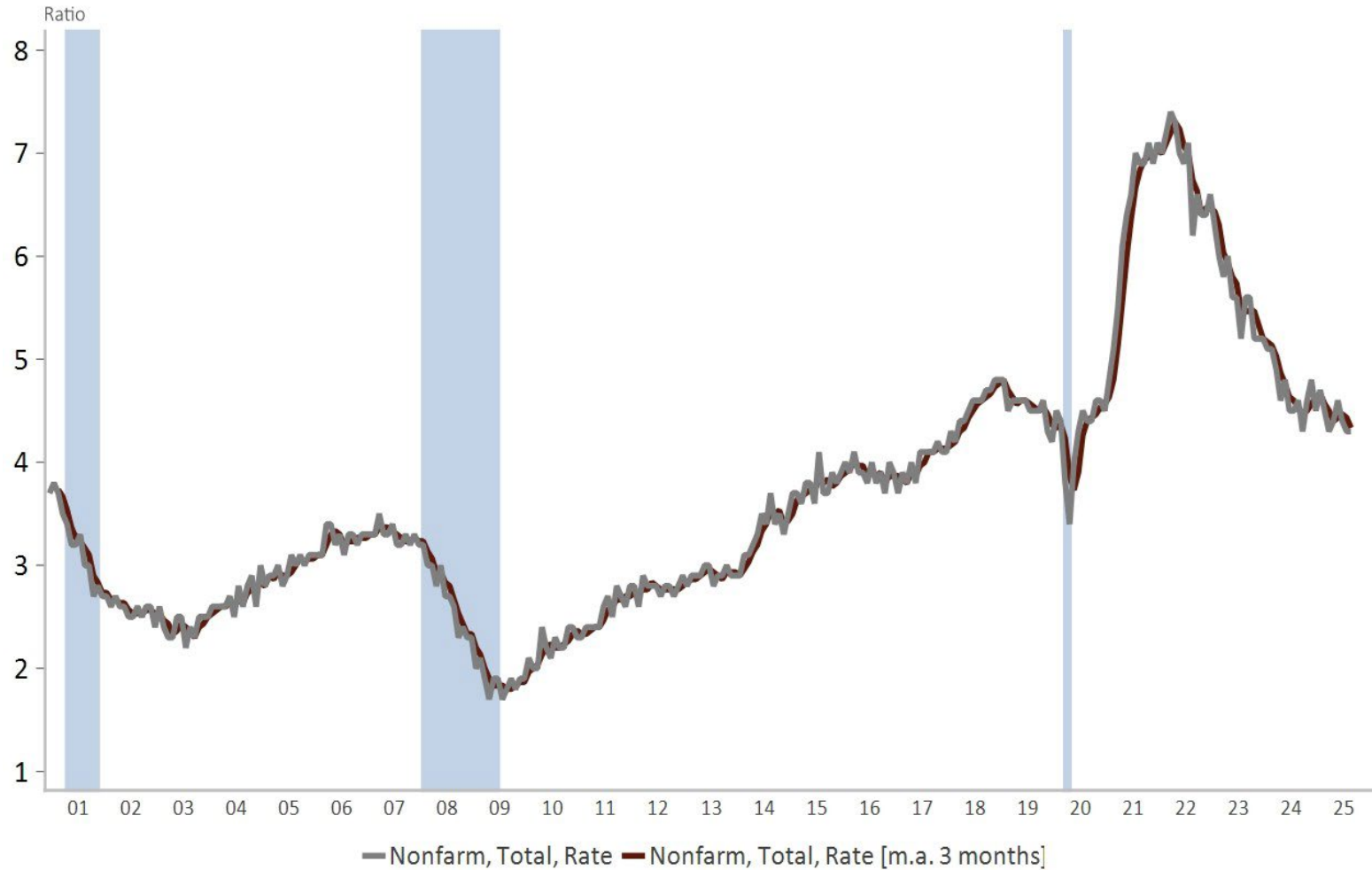
Labor market differential points to further pressure on unemployment

(Employment CB Confidence: Jobs plentiful - Jobs hard to get)



Source: Renaissance Macro Research, Macrobond

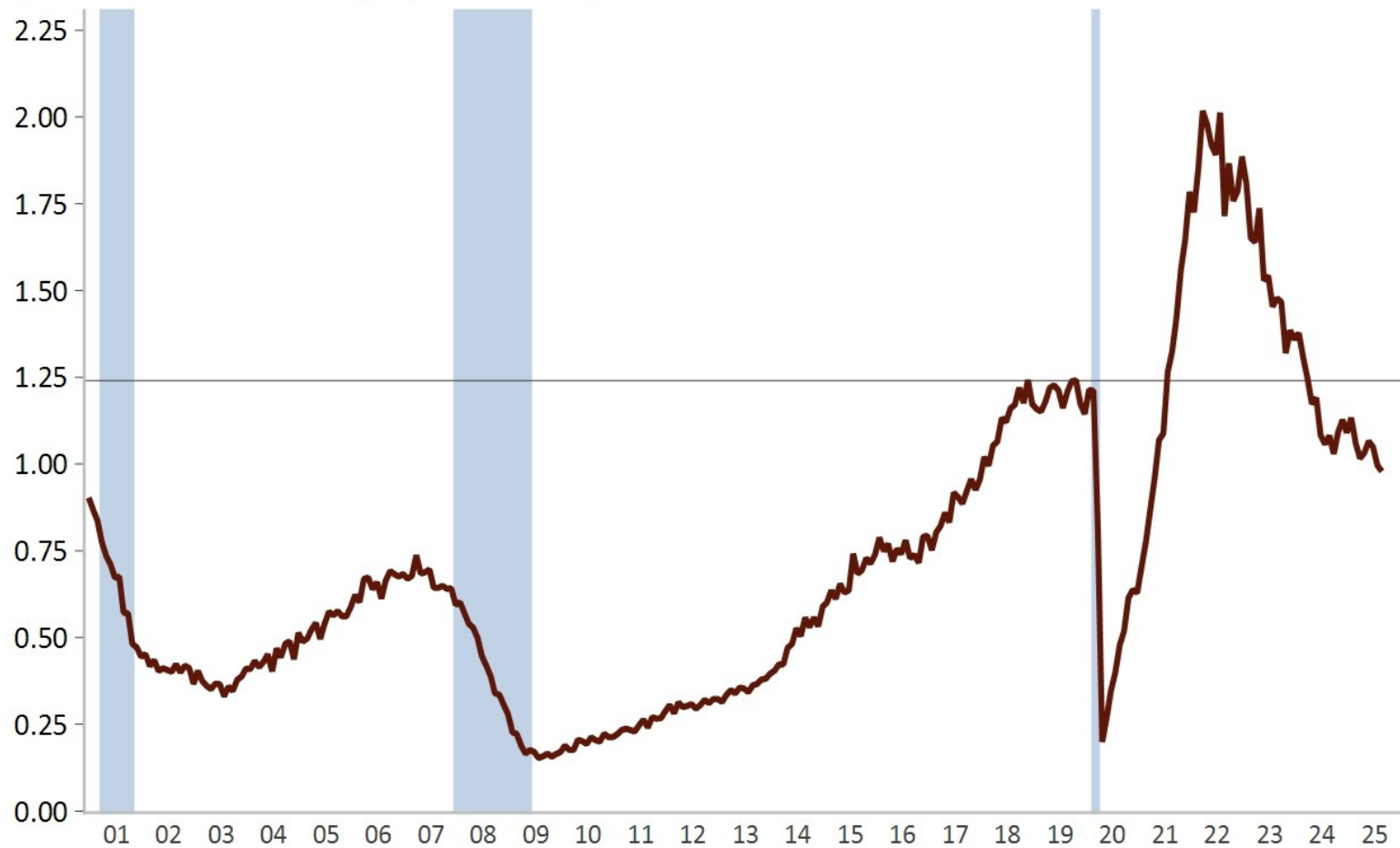
Job openings rate settle in a narrow band after declining from 2022 peak



Source: Renaissance Macro Research, Macrobond

Job vacancies to unemployment ratio has been on a downward trend

(Job Vacancies to Unemployment, Ratio)



Source: Renaissance Macro Research, Macrobond

DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive.

Copyright © RenMac 2025. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac. No portion of this material, including data, analysis, or commentary, may be input into, uploaded to, or otherwise used in connection with any artificial intelligence (AI) system, machine learning model, large language model (LLM), chatbot, or automated content generation platform, including but not limited to ChatGPT, Claude, Gemini, or similar tools, without the prior express written consent of Renaissance Macro Research, LLC. Any such use is strictly prohibited and constitutes a violation of copyright and confidentiality protections. 12