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INVESTMENT SERVICES

Weekly Relative Value

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WEEK OF OCTOBER 6, 2025

More Labor Pains

*"… **there will come a point where no job is needed**…You can have a job if you want to have a job or sort of personal satisfaction, but the **AI will be able to do everything**…. We won't have universal basic income. **We'll have universal high income.**"*
— Elon Musk

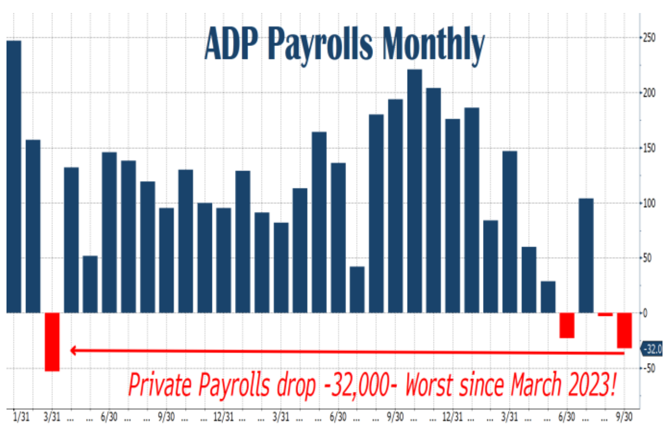
THIS WEEK

- JOB CUTS APPROACH ONE MILLION IN 2025!
- MUSICAL CHAIRS
- JOB OPENINGS DOWN, STOCK MARKET SOARS
- LABOR MARKETS DAMPEN COMPETENCE
- HOME PRICE DEFLATION
- RENTS DEFLATE
- THE TARIFF EFFECT KICKS IN
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

Due to the government shutdown, the Bureau of Labor Statistics (BLS) did not release its non-farm payrolls report for September, so the ADP private payroll report may be all we get for now in terms of payroll count and wages for September.

As a refresher, the ADP private payrolls report covers twenty-five million workers and often leads the "official" BLS jobs data. While it does not perfectly predict the BLS government payroll report, directional changes have historically confirmed broader employment trends.

And make no mistake, the ADP report for September (private payrolls only) was an absolute DUD! Job growth was forecasted to be +52,000 but instead flipped into contraction, sagging by -32,000. That's the steepest decline since 2023.



To make it worse, August's data was revised sharply lower. Originally reported as +54,000 jobs, ADP's recalibration (benchmarking against BLS census data) revealed the number was actually -3,000! That's a swing of 60,000 jobs.

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So, after adding 100,000-200,000 jobs monthly through 2024, jobs have now gone negative for two months running. The last time we saw consecutive monthly payroll declines outside recession was...NEVER!

Even if adjustments overstate weakness, the trend reversal from consistent gains to outright losses is significant.

Further, the downward revisions once again reinforce the risk that headline jobs data has been overstating strength. If a reported gain of 54,000 can turn into a loss, markets and the Fed must question whether momentum is worse than believed.

Over the past four months, ADP employment growth has slowed to the grand total of a +0.1% annual rate from +1.8% at the end of 2024. Thus, labor markets are suddenly not as “solid,” “stable” or “strong” as the Fed has described, and recession risks are not 0%.

We now watch and wait to see if Nela Richardson, ADP's Chief Economist, feels the presidential fury and wrath on Truth Social.

By firm size, the divide was stark. Small firms are struggling with rising labor and borrowing costs. This is now a pattern, and not a blip or noise. The small-business sector is a leading indicator, and on the front lines of what is really happening with the U.S. economy. I hate to say it, but this is a recession case.

- Small businesses (under 50 workers) cut -40,000 jobs and declined in past four of the past five months (by -126,000 over this time frame).
- Medium-sized firms (50–499) trimmed -20,000, where staffing contracted by -20,000 and has printed negative readings in three of the past four months.

Meanwhile, large businesses, which tend to be slower to respond to shifting economic conditions, showed jobs expanding by +33,000, but that was still a haircut from the +46,000 readings in July and August.

Remember: These are PRIVATE sector numbers ONLY. They do not include the belt-tightening underway in the federal jobs. Some 100,000 federal workers came off the government’s payroll this week. Overall, the administration expects the federal workforce to end the year with hundreds of thousands fewer employees, attributed to a hiring freeze, layoffs and voluntary departures. Trump has also threatened to permanently lay off additional workers in connection with the shutdown, which temporarily furloughs an estimated 750,000 people, according to the nonpartisan Congressional Budget Office.

Drilling a little deeper, across the wide swath of industry sub sectors, the breadth of the decline was striking, with 70% of the subsectors posting declines last month. For some historical perspective, the last time this last happened was back in July 2020.

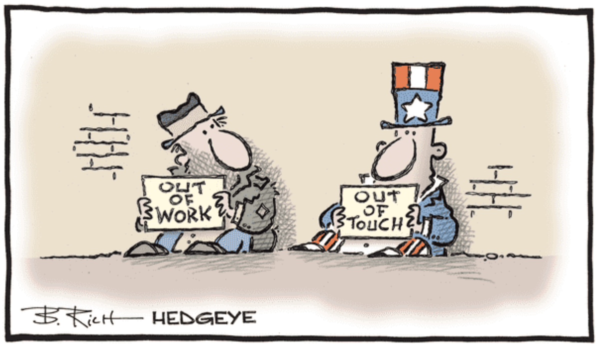
Moreover, all the sectors economically sensitive were negative in what was one of the poorest reports of the post-pandemic recovery:

- Leisure/hospitality: -19,000 (the steepest falloff since February 2024 and the second largest since March 2023)
- Professional/business services: -13,000 (down in four of the past five months). This is very important because this is a proxy for temporary workers and serves as a reliable leading barometer.
- Financial sector: -9,000 (practically flat since July)
- Trade/transports: -7,000 (on top of a -17,000 contraction in August)
- Construction: -5,000 (the first decline since July 2021 and the biggest since July 2020)

- Manufacturing: -2,000 (after a -18,000 pullback in August)

The ONE bright spot was in the “non-economic sensitive” education and health services sector, which added +33,000 jobs in September. The demand for healthcare workers and teachers continues to rise, contrasting sharply with the pullback in “cyclically economically sensitive” industries where businesses are cutting costs and facing weaker consumer demand. Moreover, when 87% of job growth comes from one sector and others are cutting, that's fragility, not strength.

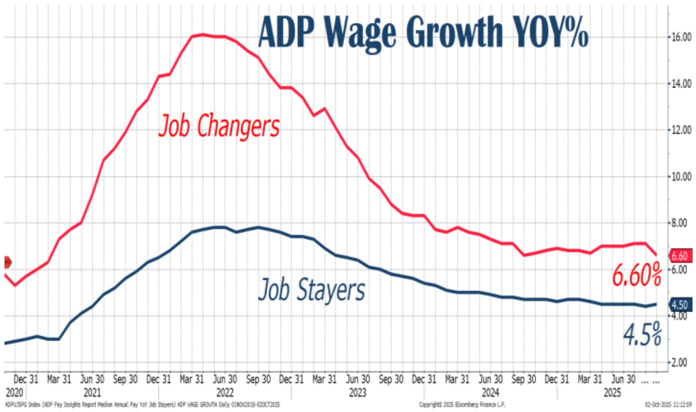
If you were to strip healthcare and educational workers out, ADP employment would have shown a whopper of a -65,000 job slide, and that would have come on the heels of a -21,000 decline in August. We're witnessing the labor market seize up in real time.



Moving on. Wages are still rising but at a slower pace.

- For “Job Stayers”: +4.5%, roughly the same increase as over the prior six months.
- For “Job Changers”: +6.6%, down from the 7.0% to 7.1% range in the prior six months.

Sectors like hospitality and finance showed the steepest deceleration, underscoring how employers are pulling back on aggressive pay increases. Manufacturing workers gained +4.7%, financial services +5.2%, **but employees at the smallest firms (One to 19 workers) only saw +2.7% raises**.



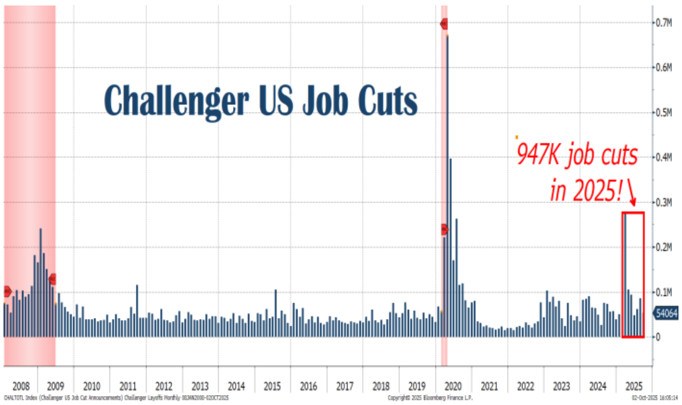
Bottom line: This clearly was NOT a “September to remember.” The labor market is clearly losing momentum. Two consecutive negative readings suggest the "low hire, low fire" equilibrium is breaking toward the fire side. Companies had held onto workers hoping for clarity on tariffs and rates. Now they're cutting ahead of what they see coming.

Slowing job creation, wage moderation and smaller firms under stress reduce inflation risks but raise concerns about economic growth risks. For the Fed, the case for easing is growing even faster. If inflation data remains under control, the Fed may have justification to pivot towards more aggressive rate cuts sooner than many had anticipated.

JOB CUTS APPROACH ONE MILLION IN 2025!

With the labor market's questionable health under the spotlight (as highlighted above in the very weak ADP private payrolls report) Challenger, Gray & Christmas – the largest executive outplacement firm in the U.S. – announced more troubling labor market news. The year-to-date level of planning layoffs totaled 946,426 through the first three quarters and headed to well over one million job cuts for 2025. The figure already is 24% higher than all of 2024 and the highest since the pandemic recession in 2020.

As for the top reasons behind the layoff announcements, they were closures (13,600), market/economic conditions (8,900) and… AI (7,000).

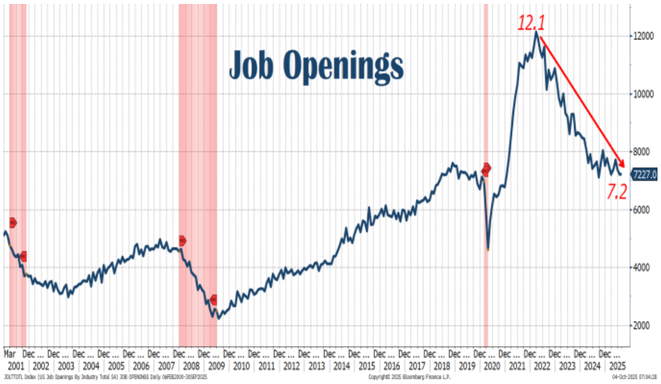


Making matters worse, Challenger said hiring plans have declined sharply. In September, companies announced 17,313 hiring plans in September 2025, **the lowest for the month of September since Challenger began releasing the data**. So far this year, hiring totaled 204,939 jobs, down 58% from the 483,590 through September 2024 and the weakest year-to-date stretch since 2009. I don't need to remind you what was going on back then. This brings the year-to-date tally to 205,000, which is the lowest for any year since 2009. Comparisons to 2009 and 2011 hardly invoke memories of a strong economy. No wonder Powell moved away from calling the job market "solid."

Bottom line: Sugar coat it all you want, the U.S. labor market is clearly sucking wind.

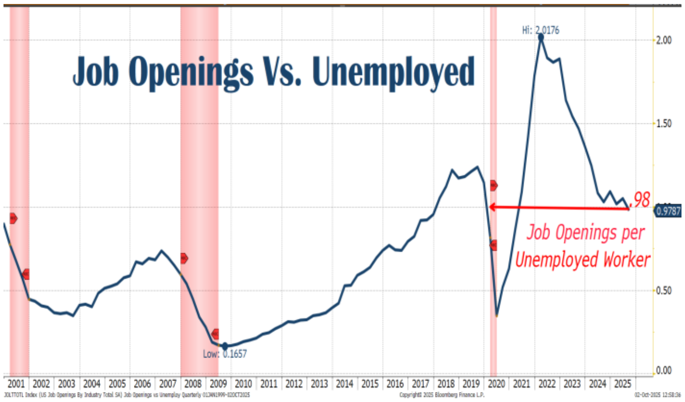
MUSICAL CHAIRS

Job openings rose by +19,000 in August, to 7.208 million, remaining near their lowest since January 2021.



More importantly, the ratio of job vacancies to unemployed fell to 0.98, the lowest since April 2021. By comparison, in the 18 months before the pandemic, the ratio hovered between 1.15 and 1.25.

Simply put, the 0.98 ratio means for every unemployed person, there is less than one job opening available. During healthy labor markets, there are 1.2-1.3 openings per unemployed person, giving workers choices and bargaining power. Now we have 157,000 more unemployed than job openings, meaning even if every job were filled, there would still be people without work. When openings peaked at 12 million in 2022 and when the job openings to unemployed worker ratio stood at 2.0, people could job-hop for raises. Now they are grateful to have a job.



Bottom line: This Job Openings and Labor Turnover Survey data is the "musical chairs" problem in real time as more unemployed Americans scramble to find an empty chair. 7.2 million job openings sound like a lot, but with 7.4 million unemployed, workers have lost leverage. Companies know they have multiple candidates for every position, so wages stagnate and benefits shrink. This weighs on consumer sentiment and the consumption function, which in turn slows economic growth.

JOB OPENINGS DOWN, STOCK MARKET SOARS

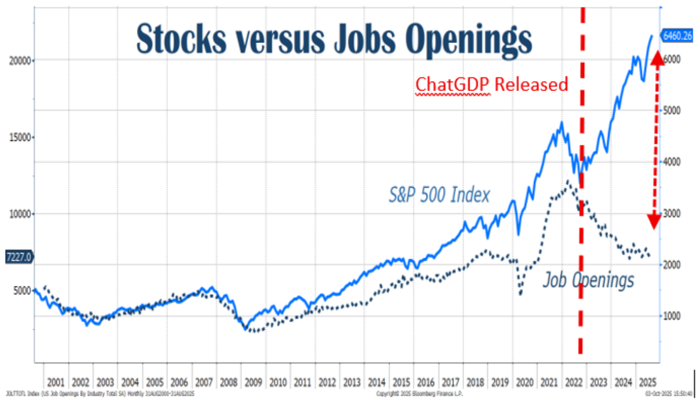
"Artificial intelligence is going to replace literally half of all white-collar workers in the U.S."
— Jim Farley, Chief Executive Officer, Ford Motor Company

The following chart shows job openings versus the S&P 500 from 2003 to today. For the past 20 years, these lines have moved in tandem, then something broke in 2022.

Job openings peaked at 12 million in March 2022 and crashed to 7.2 million today. Meanwhile, the S&P 500 bottomed in October 2022 and rallied 30%. This isn't normal. Even during 2008 and 2020 crashes, both lines moved together. Now they're completely divorced.

I believe we're watching the correlation between markets and employment break in real-time. This graph captures the beginning of structural technological unemployment. Not the "AI will take jobs someday" theory, but actual jobs are disappearing now. Corporations have leaned into efficiency. Instead of hiring at scale, they are investing heavily in tech and automation. Workers have been replaced by software and AI.

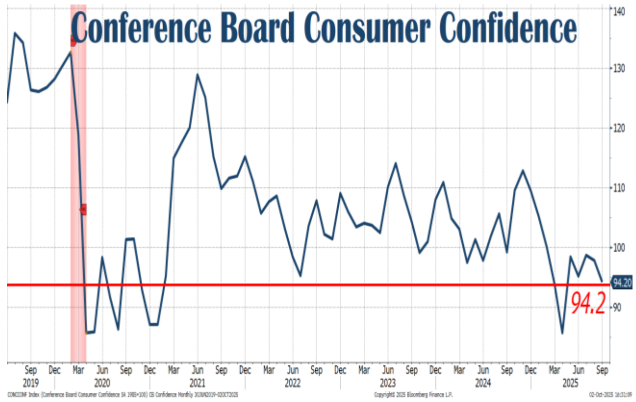
The result: fewer postings, leaner payrolls, increased productivity, higher margins and record profits. Capital celebrates while labor suffers. This divergence is a feature, not a bug.



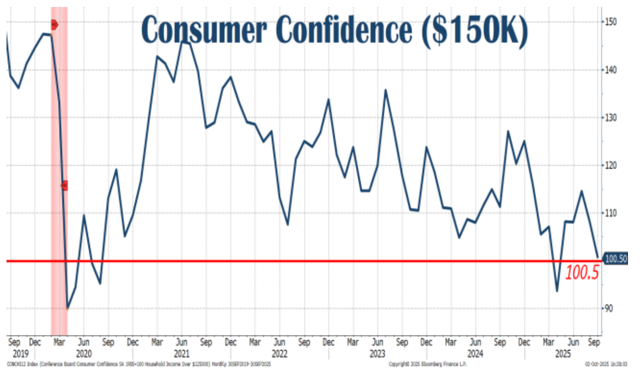
Bottom line: The fact that equity markets are at records while job openings hit a four-year low is telling you who wins in the AI economy. The scary part is we are still in the early innings of AI capability. If this is the divergence from ChatGPT and Grok, imagine what happens when AI really gets good.

LABOR MARKETS DAMPEN CONFIDENCE

Consumer confidence was clipped in September, even as the equity market chugged along to new record highs. The Conference Board's confidence measure dropped from 97.8 in August to a five-month low of 94.2 in September, undercutting the consensus view of 96.0.



What was most surprising to me was that the high-income echelon showed a big hit, where confidence tumbled by -7.5 points, after a -6.5-point hit in August, in one of the sharpest successive declines since the pandemic recession ended in the spring of 2020.



The "jobs are plentiful" index dropped a lot to 26.9% from 30.2%.

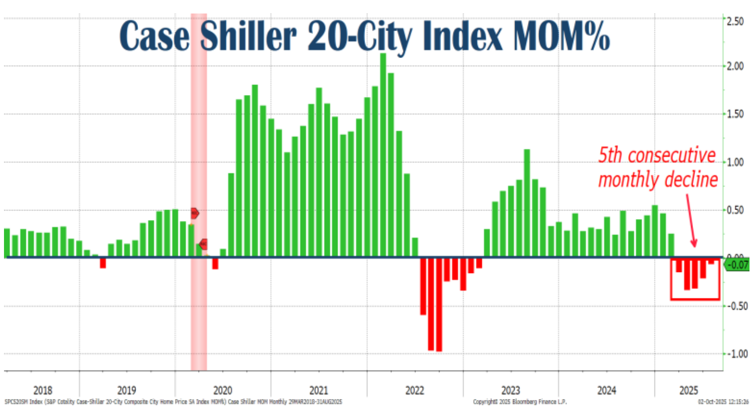
Meanwhile, the share saying "jobs are not plentiful" hooked up to 54.0% from 50.7% to stand at the highest level since March 2021.

The “jobs are hard to get” index correspondingly stayed at 19.1%, tied for a four-and-a-half-year high. The gap between this series and the “jobs are plentiful” index went to the lowest level since February 2021 — when the unemployment rate was sitting at 6.2%.

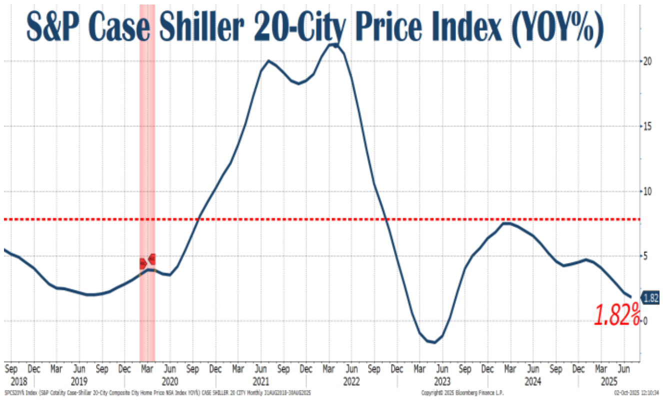
Bottom line: Even though the BLS did not release the payroll report, the Conference Board survey clearly shows that consumers are pessimistic about near-time job prospects.

HOME PRICE DEFLATION

The bellwether Case-Shiller Home Price Index dipped by -0.1% month over month in July, the fifth decline in as many months. It was nearly three years ago, back during the Fed’s aggressive tightening cycle, that we last saw a losing streak this long. The level itself has dialed its way down to an eight-month low.

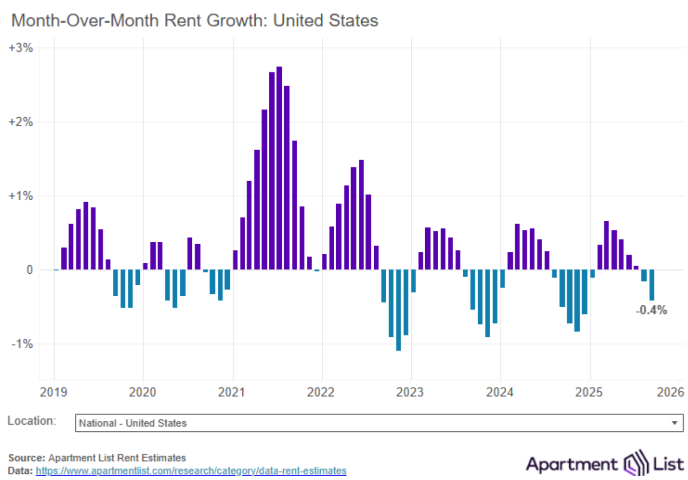


The year-over-year trend was cut to +1.7%. A year ago, it was nearly +5.0%, so this is quite the cooldown for a near-$50 trillion asset on household balance sheets.

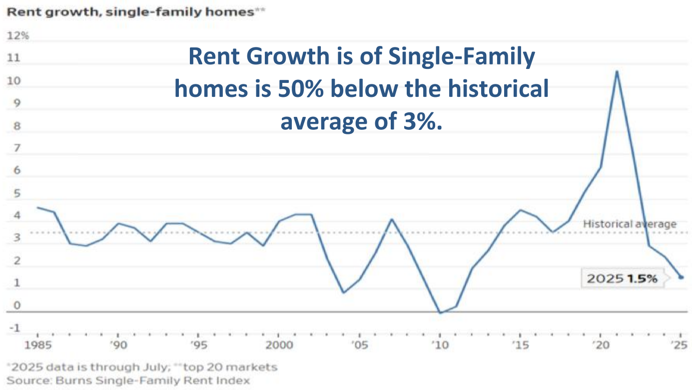


RENTS DEFLATE

Keep in mind that the Apartment List just reported that U.S. residential rents dropped by -0.4% month over month in September as well, the second retreat in a row. We're now officially into the rental market's slow season. It's likely that rent prices nationally will continue to decline through the remainder of the year, with fewer renters looking to move as temperatures turn cooler and the holiday season approaches. At the same time, there is more to come, with vacancy rates heading to record highs of over 7.0%.



Likewise, John Burns, Chief Executive Officer of John Burns Research and Consulting, just reported that rental inflation for single-family homes in 2025 is down to only 1.5%, one of the lowest levels the index has recorded in the last three decades.



This slowdown in rent growth is being driven by an increase in rental listings from homeowners who cannot sell their houses. In addition, lower immigration is likely starting to bleed over into reduced demand for rentals here in the second half of 2025, which will lead to muted rent growth moving forward.

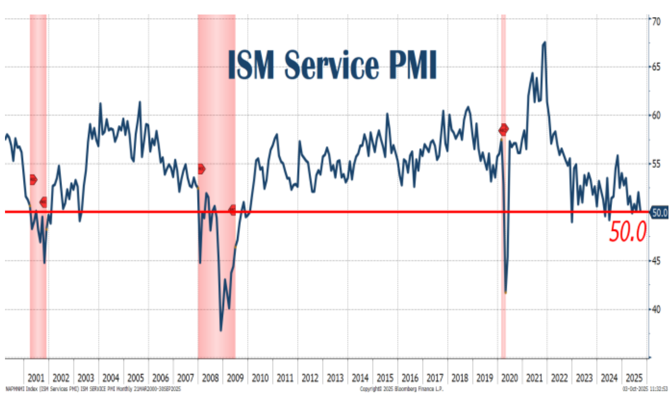
This is where the inflation narrative falls apart, as was the case in the summer of 2007 when everyone was focused on oil prices. Today, the inflationists gaze at tariffs, but make no mistake, real estate is a far bigger beast, and it is deflating. This is more constructive news for the Treasury market.

Bottom line: My longstanding view has been that disinflation, if not deflation, in shelter costs will not only overwhelm any inflation effect from tariffs but will also lead to a decline in the overall inflation rate.

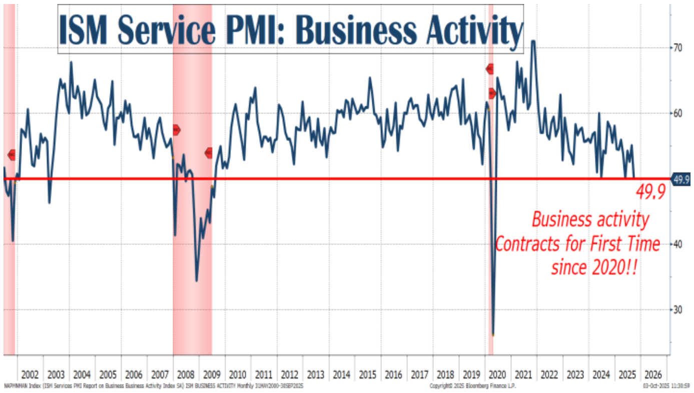
THE TARIFF EFFECT KICKS IN

"There's nothing indicating strength there. It's all slow growth. It's not a good trajectory."
— Steve Miller, Chair, Institute for Supply Management

The U.S. service sector stalled in September as business activity shrank for the first time since the pandemic and orders barely expanded. The Institute for Supply Management's Index of Services dropped two points to 50, a level that indicates stagnation.



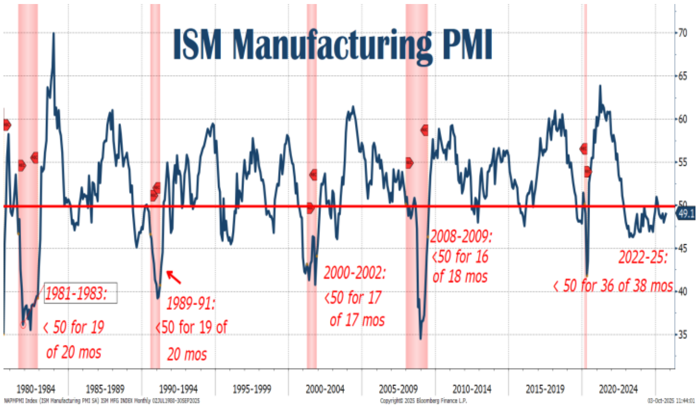
The Business Activity Index, which is comparable to the ISM's factory output gauge, fell more than five points and into contraction territory for the first time since May 2020.



The New Orders Index dropped 5.6 points to 50.4, erasing almost all of the prior month's gain.

The disappointing snapshot of service providers, which make up the largest part of the economy, follows an earlier report this week showing a seventh month (and 36 of the past 38 months) in manufacturing contraction. Golden age, not!

The correlation between tariff implementation timing and manufacturing performance appears significant based on survey responses. Historical patterns indicate extended manufacturing weakness often precedes broader economic deceleration, though timing varies.



Manufacturing employment contracted for eight straight months with only one of 18 tracked sectors adding workers in September. Companies reported reducing both production levels and workforce to manage costs during this period of reduced demand.

Bottom line: Seven months of contraction meets standard definitions of sector recession. With ISM services at 50.0, both major economic components show weakness simultaneously.

MARKET OUTLOOK AND PORTFOLIO STRATEGY

Meanwhile, a Q4 economic vacuum could be coming our way as the U.S. government shutdown has taken the Bureau of Labor Statistics offline.

- No Jobs Report (October 3)
- No Consumer Price Index (CPI) (October 15)
- No Producer Price Index (PPI) (October 16)

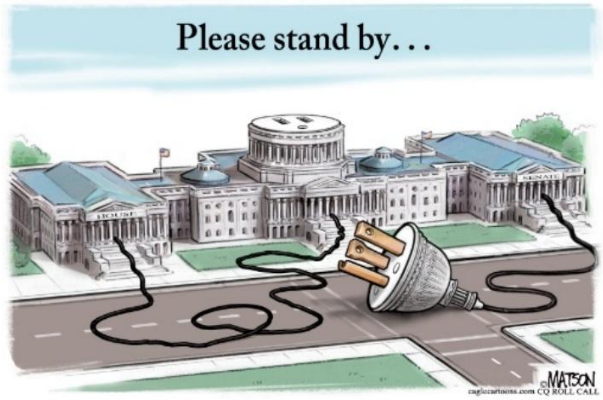
And the list goes on.

Here is the cost of this:

- The Federal Reserve heads into its October 28–29 meeting with little visibility on inflation or employment.
- Markets and investors lose benchmarks that guide expectations.
- Businesses and households are left without metrics for hiring, pricing and spending.

This isn't a one-off. Shutdowns have happened before and will happen again. Yet, the history of government shutdowns over the past three decades has been high on drama and low on overall economic impact.

But what makes this shutdown round different is that the White House is planning to use this period to slash more U.S. agencies and take more stabs at reducing the size of government (especially those in blue states). Any effort by Trump and his advisers to use the shutdown to fire federal workers or make permanent cuts to agency budgets would be unprecedented and would clearly be a negative for economic growth.



I realize that there is tremendous excitement over the upwardly revised U.S. real gross domestic product growth number for Q2 of +3.8% (a number that Scott Bessent loves to use in his messaging on his TV interviews). The thing is, strip out the arithmetic contribution from the tariff-induced plunge in import volumes, and the economy contracted at a -1.2% annual rate! Trade the narrative but own the truth.

We may be in a data vacuum right now (as the government shutdown heads into its sixth day), but with all due deference to the Atlanta Fed Nowcast model, the U.S. economy has clearly hit stall speed. And when the October employment data are released, expect a negative headline since 100,000 federal workers came off the government payroll last week.

Due to the shutdown, the BLS CPI and PPI data for September will be delayed. Thus, markets will key on other private data sources to understand what is happening in the economy. On the inflation front, the Truflation U.S. Inflation Index shows consumer inflation running at 2.25% versus the BLS data of 2.90%. This is why real-time, independent data matters. Not only because it runs ahead of official metrics, but because it ensures we're never left flying blind.

While the government data calendar has been put on hold, there have been enough data points from the private sector to warrant another Fed rate cut at the October meeting, notwithstanding the bog of uncertainty we are in.

The futures markets pricing an 80% probability of October rate cuts will get their wish.

On the bond front, 10-year Treasury yields eased last week after the Supreme Court's decision regarding Trump's attempt to fire Federal Open Market Committee (FOMC) member Lisa Cook. That took some of the term premium out of the yield curve since it confirmed that a presidential takeover of the FOMC will not be that easy.

Bottom line: Selloffs should be viewed as an attractive entry point to position investment portfolios and balance sheets for a lower rate paradigm. As always, the most prudent approach is to build a risk-appropriate ladder strategy.

WHY SUBSCRIBE TO THE WRV?

There is a lot of noise in the financial world and social media about the markets and the economy. I do what I always do, block out the noise, rhetoric and bullish biases (that point to the rewards without discussing the risks) that dominate Wall Street research and, most of all, try to keep investors out of trouble. This constant analysis goes through the noise, debunks misleading headlines and makes deep dives into the financial markets and economic reality. Call me a "permabear" if you will, but I see myself more as the car mechanic who fixes your brake lights and makes sure your side-view mirrors are okay. Risks should never be ignored, and I focus on identifying them. It's what makes the *Weekly Relative Value (WRV)* unique in the marketplace. By subscribing, you will always be up to date with the most relevant economic and market trends, and most importantly, you will be aware of the key risks. To receive future issues of *WRV* in your inbox, subscribe here.

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For more information about credit union investment strategy, portfolio allocation and security selection, please contact the author at **tom.slefinger@alloyacorp.org** or (630) 276-2753.

As Alloya's Market Strategist, **Tom Slefinger** leverages nearly 40 years of investment strategy expertise to deliver insightful commentary on the economy and market events to optimize balance sheet performance at the credit union level. With thousands of subscribers, Tom's daily and weekly publications are widely read amongst credit union executives.

Prior to becoming the corporate's Market Strategist, Tom served as the Senior Vice President of Institutional Fixed Income Sales at Alloya Investment Services, a division of Alloya Solutions, LLC. In this role, Tom developed and managed operations associated with institutional fixed income sales in addition to developing investment portfolio strategies, identifying appropriate sectors and securities, and optimizing portfolio performance at the credit union level.

Tom holds a B.S. in business administration from the University of Maine. In addition, he holds a Series 7 and 63 through ISI.