Mizuho Brief: US

Economics & Strategy | Asia ex-Japan

08 September 2025 |
Vishnu Varathan | Head Macro Research, Asia ex-Japan

NFP's Dire Warning on "Too Little, Too Late" Risks

Dire Warning, Not Just Damp Squib

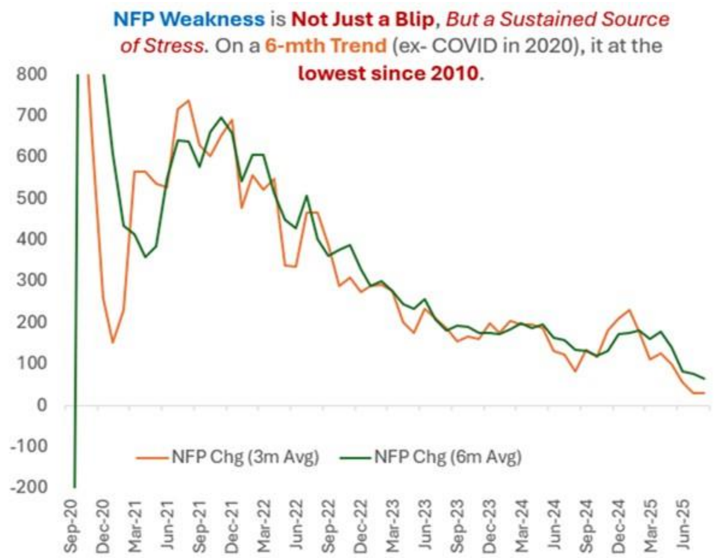
- **US non-farm payroll miss** is *not merely a damp squib* (data point), *but* **a dire warning** that the *economy could inadvertently sleep-walk into a hard-landing*.
- To be sure, that (an unavoidable recession) is not our base case.
- But a conspiracy of *mounting but understated downside (jobs) risks* and *exceptionally elevated geo-economic uncertainty* **amplify threats of "too high for too long"**.
- Especially *in the context of* baggage from being wrong-footed by the post-pandemic inflation flare.
- The upshot is the **NFP disappointment** may **actually be understating a deeper downturn *exacerbated by policy pitfalls***.

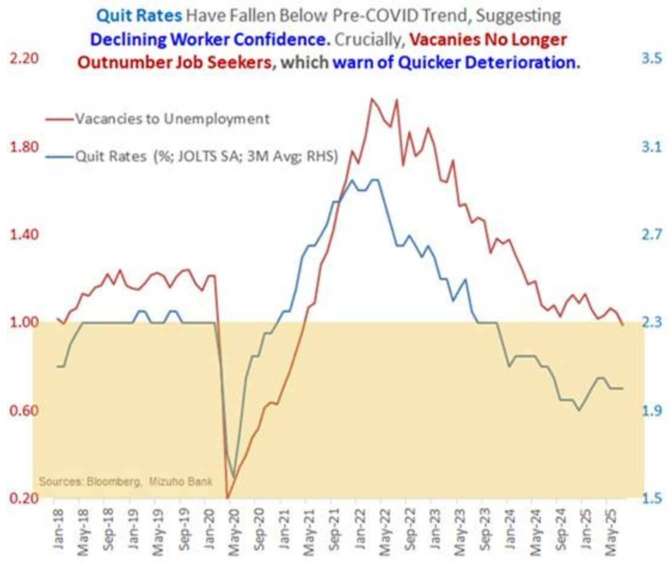
Bad News is Bad News

- Such mounting **economic risks** were arguably revealed in the **inability to inspire equity market rallies/"risk on"** ***despite a sharp 8-10bp drop across*** 2Y, 10Y and 30Y ***UST yields***.
- Crucially, the "**bad** *(data)* **news is good** *(stimulus)* **news" Teflon coating** on earlier (JOLTS) jobs data **unravelled on the NFP stumble.**
- In other words, the **"Goldilocks" softening in data that perversely boost markets on Fed cut bets** is now being refuted as **markets worry that** "**bad** *(jobs)* **news is bad** *(economic)* **news**".
- Implicitly, this *factors in the risk that Fed easing*, in response to jobs deterioration, *may not be quick and/or adequate enough* to offset the jobs drag.

Discomfort (& Devil) in the Details

- And perhaps one reason why the NFP data are being taken in a gloomier light could be signs of **sustained weakness beyond key thresholds**, that have been consistent with downturns in the past.
- The drop in *NFP on a trend basis is at the lowest since 2010* (if COVID is excluded).
- What's more, *vacancies to job-seekers ratio dipping below parity* (in the JOLTS data earlier) **warns of sharper deterioration around the corner**.
- Above all, these **dynamics reinforce a sharper decline in sentiments/confidence**, consistent with the drop in Quit Rates, that may *presage a sharper decline in consumption that may compound economic pain*.





The Dual-Mandate Bind

- Obviously, **the underlying job market fundamentals** are **even more worrying beneath the hood than the headlines suggest**.
- All else equal, this **ought to stir the Fed's latent dovish bias** (assessing appropriate timing and scope to resume cuts).
- ***But*** the trouble is that **the Fed (doves) will initially be far more restrained by the "dual mandate"**.
- Fact is, Fed **Chair Powell has already alluded to** the **anchoring of "dual mandate"** that necessitates more evidence and patience, **despite shifting balance of risks** at Jackson Hole.
- Specifically, *uncertainty about tariff-induced price shocks/inflation risks*, may **force the Fed to temper, if not resist, dovish instincts otherwise warranted by standalone jobs risks**.

"Too Little, Too Late" Risks

- Consequently, apart from the actual jobs deterioration risks, **markets may be fretting <u>Fed risks painting itself into the "dual mandate"-"data-dependence" corner</u>**, which *flirts dangerously with* **"too little, too late"**.
- This in turn will **accentuate hard landing risks**.
- If so, this **may necessarily require the Fed to engage in deeper and faster compensatory cuts down the line**.
- Hence, the outcome that may be under-estimated by incremental increase in rate cut bets, is a much sharper easing by the Fed heading into early-2026.

"Even Sharper UST Yield Volatility & BoJ Oversteer Risks

- This may be suggestive of;
  - i) a far sharper front-end UST yield pullback;

ii) even more volatile long-end amid tensions from fiscal/debasement risks, which otherwise warn of more upside, at odds with dovish Fed pivot, and;

iii) sharp USD swings on Fed triggers; in store.

- In addition, this also **accentuates the risks of sharp JPY volatility** from knock-on UST-JGB spreads swings.
- In particular, **excessive JPY strength to the detriment of exports** as well as **asset market (Nikkei) sentiments**.
- Hence, the dangers of BoJ oversteer are significant in the context of a Fed that may suddenly catch-down sharply, well below rat cuts suggested by the Fed/markets.