SMITH AFFILIATED CAPITAL

MARKET COMMENTARY

August 10, 2026

Two Structural Cracks Beneath a Calm Headline Economy

By the numbers most people watch, the U.S. economy still looks fine: unemployment is low, jobless claims are stable, and paychecks are growing. But two datasets released this summer — one on job-finding, one on labor costs — suggest the calm surface is sitting on top of structural shifts that a normal business-cycle framework does not explain well. Neither looks like something that reverses on its own when the Fed cuts rates or a soft patch passes.

The Jobs Data: A Recovery That Stopped Recruiting Its Usual Recruits

Federal Reserve Bank of San Francisco researchers found that job-finding rates — the pace at which unemployed and non-employed people actually land jobs — have fallen for three straight years, even as headline unemployment stayed low. That alone is unusual: in a normal mature expansion, a tight labor market pulls in exactly the workers who are hardest to place — the young, the less-educated, people on the sidelines. This time, the opposite groups are struggling.

The decline splits cleanly into two stories. Among people already searching for work, the drop is concentrated in prime-age, college-educated workers — historically, the fastest group to land a job in *any* labor market. Among people outside the labor force, the decline is concentrated in the young and less-educated — the group a hot economy is supposed to pull off the sidelines. Instead, that pipeline is shrinking.

The researchers explicitly contrast this with 2007–09, when job-finding fell broadly, across every education level, as you would expect from a straightforward demand shock. The current pattern is selective, not broad-based — and selectivity is the signature of a structural shift, not a cyclical one. The plausible culprits — AI-driven displacement in white-collar work, contractor and government workforce reductions, managerial restructuring — are not the kind of forces that unwind when growth picks back up. They represent employers permanently redesigning who and how much they hire, not temporarily pausing hiring plans.

Healthcare Costs: A Cost Curve with No Natural Ceiling

The second crack shows up in the Employment Cost Index. Total compensation is up 3.4% year-over-year, but benefits costs are outrunning wages — up roughly 3.8% for both private and civilian workers — and within that, employer health insurance costs rose 5.7% over the year, having touched a 20-year high above 6% in late 2025. Real (inflation-adjusted) private-sector wages actually *fell* 0.4% over the year — the first such drop since 2022 — meaning workers are losing ground even as employers spend more on them.

GLP-1 drugs are a meaningful piece of why. Roughly 1 in 8 American adults now report taking one, and nearly 8 in 10 employers say the drugs are measurably raising their healthcare costs. Mercer projects the largest jump in per-employee health spending in 15 years for 2026, with prescription drug costs — not hospital stays or one-off shocks — doing most of the pushing. That is a demand curve, not a business cycle: as adoption climbs, oral formulations expand access further, and clinical use broadens beyond weight loss into cardiovascular and metabolic care, this cost pressure has every reason to compound rather than plateau. Unlike a supply-chain shock or a temporary spike in claims, there is no obvious mean-reversion mechanism here — it's a secular shift in what a standard health plan is now expected to cover.

Why "Structural" Matters

Calling both trends structural rather than cyclical is not just semantics — it changes the policy and business calculus. Cyclical problems respond to rate cuts, fiscal stimulus, or simply time. Structural ones do not. If the labor market is bifurcating by skill and age because of AI adoption and organizational restructuring, no amount of monetary easing pulls sidelined 22-year-olds back into jobs that no longer exist in the same form. And if healthcare cost growth is being driven by a genuinely useful new drug class with rising, durable demand, no rate decision touches that line item at all.

The uncomfortable takeaway: the headline economy can keep looking stable while two of its underlying engines — how people get hired, and what it costs to employ them — are being rewired in ways a normal cycle will not fix.

— Commentary based on Federal Reserve Bank of San Francisco Economic Letter 2026-20 (Chen, Kudlyak, and Mikhlin) and Q2 2026 Employment Cost Index data from the U.S. Bureau of Labor Statistics.