Unemployment Rate Moves Lower as Payrolls Advance in Mixed Jobs Report

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Headlines

- **Payroll employment rose by 50,000 in December, close to the consensus forecast.**
- **There was a large downward revision to employment in October to 173,000 jobs lost from an initial report of a loss of 105,000. Job growth in November was revised lower to 56,000 from 64,000.**
- **The unemployment rate fell to 4.4% from a downwardly revised 4.5% in November.**
- **Average hourly earnings increased 0.3% and are up 3.8% from a year ago.**
- **Market reaction was muted with stocks little changed and the 10-year yield up slightly.**

Details

Payroll employment increased by 50,000 in December from November, close to the consensus estimate (Figure 1). Private-sector employment increased by 37,000. **There was a large downward revision to employment in October, to 173,000 net jobs lost over the month, from an initial report of 105,000 jobs. Job growth in November was revised lower to 56,000, from 64,000.** The large job losses in October came primarily from federal government job cuts; federal workers who took buyouts earlier in the year officially lost their jobs when their pay ran out in October.

Because of the federal government layoffs, it is better to look at private-sector employment to determine the underlying trend in the job market. The private sector added an average of 29,000 jobs per month in the last three months of 2025, and an average of 61,000 per month over all of 2025. This is down from average monthly private sector job growth of 155,000 in 2023 and 129,000 in 2024.

The unemployment rate fell slightly, to 4.4% in December from 4.5% in November (Figure 2). (The November rate was revised lower from 4.6% because of updated seasonal adjustments.) The unemployment rate has been above 4% since early 2024, after being below 4% for the previous two years. The labor market is still in solid shape but is not as tight as it was a couple of years ago. (The October 2025 unemployment rate was not reported due to the government shutdown.) The number of people employed in a survey of households (different from the survey of employers) rose by a strong 183,000 in December from November.

The number of people in the labor force—either working or looking for work—fell by 46,000 over the

month. The unemployment rate declined as more people had jobs and there was a smaller pool of available workers. **With the small decline in the labor force, the labor force participation rate—the share of adults working or looking for work—fell slightly to 62.4% in December from 62.5% in November.** The labor force participation rate has been between 62.2% and 62.6% for more than a year, down from above 63% before the pandemic. The labor market is structurally tighter than it was pre-pandemic, and an aging workforce and reduced immigration will put downward pressure on the labor force participation rate over the longer run.

Goods-producing industries lost a net 28,000 jobs in December, with declines in both construction and manufacturing. Manufacturing employment has been falling steadily since early 2023, down by about 200,000, or 1.6%. Private services-providing industries added a net 58,000 jobs over the month, with 37,000 of those in healthcare and social assistance. That industry has accounted for about one-half of all job growth in 2025.

Average hourly earnings rose 0.3% in December from November, close to the recent pace. On a year-over-year basis average hourly earnings were up 3.8%. Wage growth has run below 4% for all of 2025, down from during the initial recovery from the pandemic, but above the pace of slightly greater than 3% before the pandemic. Inflationary pressures from the labor market are fading but remain elevated.

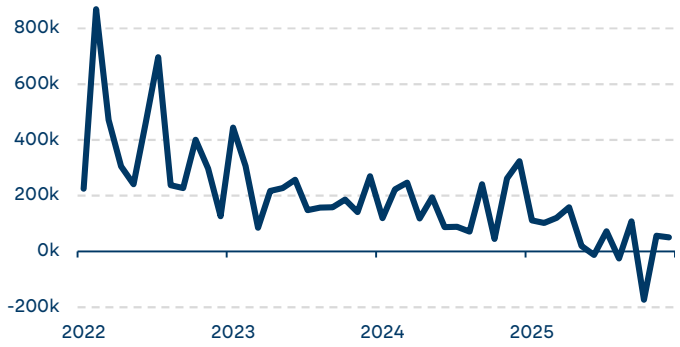
The average workweek fell by 0.1 hours over the month to 34.2 hours. The average workweek has been between 34.1 and 34.3 hours since early 2024. With more jobs, higher average hourly earnings, but a shorter average workweek, aggregate labor market income were flat in December from November.

The diffusion index, which measures the breadth of job growth, was 50.8 in December, meaning slightly more private-sector industries added jobs over the month on net than lost jobs. The index has been above 50 for the past five months, after being below 50 earlier in the year, so the breadth of job growth is weak, but better than it was in mid-2025.

The December jobs report is consistent with a labor market that is still expanding but is not as strong as it was in 2023 and 2024. Job growth has slowed, the unemployment rate is higher than it was a year or two ago, and the breadth of job growth is worrisome. But with slower labor force growth from reduced immigration, the number of jobs the economy needs to create to keep the unemployment rate low is smaller than it was.

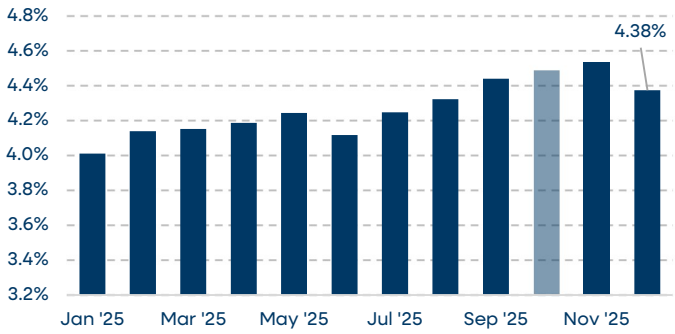
Market reaction to the employment report was muted. Stocks are little changed, the 10-year yield is up by just one basis point and the probability of a 25-basis point cut in the fed funds rate dropped from close to 12% to just 5% after the report was released.

Figure 1: Nonfarm Payrolls (M/M, Chg.)



Sources: BLS, PNC

Figure 2: Unemployment Rate (%)



Sources: BLS, PNC

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