# Softer Job Growth in June, Small Drop in Unemployment Rate

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## Headlines

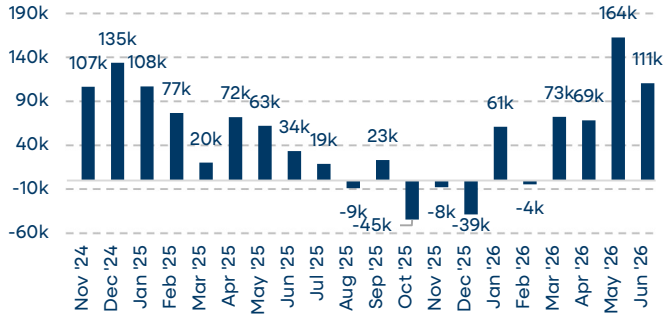
- **The U.S. economy added 57,000 jobs in June, well below expectations. There were also downward revisions to job growth in April and May. Job growth remains stronger than in 2025.**
- **The unemployment rate fell slightly to 4.2% as the labor force contracted.**
- **The breadth of job growth has improved since 2025.**
- **Worker incomes outpaced inflation in June.**
- **The softer jobs report supports PNC's forecast for no change in the fed funds rate this year.**
- **Market reaction was muted.**

## Details

**Job growth disappointed in June compared to the recent pace, with gains of just 57,000** according to a survey of employers from the Bureau of Labor Statistics. This was only about one-half of the consensus expectation of 110,000, and even further below PNC's forecast of 140,000. In addition, job growth was revised lower in May, to 129,000 from 172,000, and in April, to 148,000 from 179,000. The three-month moving average of job growth through June was 110,000, compared to a three-month moving average of 188,000 to in May before revisions, and 164,000 after revisions. But even with the softer job growth in June and the downward revisions, the pace of job growth is still solid. In the first half of 2026 the US economy has added an average of 92,000 jobs per month, compared to an average of just 10,000 per month for all of 2025. The private sector added 49,000 jobs in June, with government job gains of 8,000.

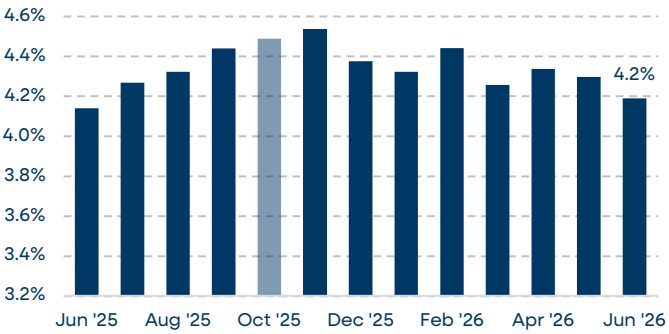
**The unemployment rate fell slightly to 4.2% in June,** after being at 4.3% in the previous three months. The unemployment rate has been in a range between 4.1% and 4.5% since early 2025. The rate jumped from 3.5% right before the pandemic to almost 15% in April of 2020 and then fell sharply. It briefly reached 3.4% in early 2023, the lowest unemployment rate since the late 1960s, and then increased gradually in 2023 and 2024 before stabilizing in 2025 and 2026.

**Figure 1:** Change in nonfarm payrolls (m/m, three-month moving average)




Sources: BLS, PNC

**Figure 2:** Unemployment Rate (%)




Sources: BLS, PNC

Employment as measured in a survey of households (different from the survey of employers) fell by 507,000 in June. But the labor force—the number of people working or looking for work—fell by a larger 720,000, and so the number of unemployed workers fell by more than 200,000 in June. With fewer people working, but an even larger drop in the labor force, the unemployment rate fell. The employment numbers in the household survey are much more volatile compared to the employer survey. So far in 2026 the household survey has reported average monthly job losses of almost 50,000.

The labor force participation rate—the share of adults working or looking for work—fell to 61.5% in June from 61.8% in April and May. This is the lowest labor force participation rate, excluding the pandemic, in exactly 50 years, when the baby boomers and women were surging into the workplace. The labor force participation rate was above 63% right before the pandemic and then plunged to around 60% in April 2020. It recovered to below 63% in late 2022, never returning to its pre-pandemic level. It has been falling since then and is down by a full percentage point since late 2025, due to the ongoing retirement of the baby boomers and restrictions on immigration. A falling labor force participation rate will put downward pressure on the unemployment rate in the medium term.

Goods-producing industries added 10,000 jobs in June, with gains of 11,000 in construction and 3,000 in manufacturing. Manufacturing employment was revised lower in both April and May to show small job losses, as opposed to the initially reported small gains. Over the past three months manufacturing employment has been flat, but this is better than 2025, when the industry lost more than 100,000 jobs. Private-services providing industries added 39,000 jobs in June, the weakest month since February. Even with the US hosting the World Cup, there were job losses of 61,000 in leisure/hospitality services. Employment rose by 69,000 in education/health services, with a gain of 36,000 in professional/business services. The federal government added 2,000 jobs in June, with gains of 4,000 in state government and 2,000 in local government.

The diffusion index, which measures the breadth of job growth across private-sector industries, was 54.4 in June, down from 56.0 in May. A reading of above 50 means more private sector industries added jobs on net over the month than lost jobs. The diffusion index was below 50 for most of 2025, but has been above 50 every month this year, an indication that job growth has broadened. In 2025 the economy lost jobs on net outside of healthcare, but this year those other industries are adding jobs on net, although healthcare still accounted for almost 40% of total job growth in June.

Average hourly earnings rose 0.3% in June from May, and were up 3.5% from one year earlier. This was a slight acceleration from 3.4% year-over-year growth in May, but is down from almost 4% in the second half of 2025. Easing inflationary pressures from the labor market should be disinflationary in the second half of 2026.

The average workweek was unchanged in June at 34.3 hours. With softer job growth, moderate wage gains, and an unchanged workweek, aggregate payrolls rose 0.4% in June. With gasoline prices down over the month consumers will see a hefty jump in real (inflation-adjusted) earnings in June.

The June jobs report was mixed. Job growth was softer than in previous months and below expectations, but was still better than in 2025. The unemployment rate fell, but that came from a contraction in the labor force, and there was a big loss of jobs in the household survey. Wage growth is softening somewhat, but with easing inflation real wages rose in June. Given the demographic shifts from reduced immigration and retiring baby boomers, job growth like the labor market saw earlier in the year is unsustainable, and so the slower pace of gains in June is likely to persist into the second half of 2026 and beyond. The unemployment rate will remain slightly above 4% as weak labor force growth (perhaps even a contraction in the labor force) offsets slower job growth.

Federal Reserve officials have been talking about potential federal funds rate hikes in the near term, in part because of the strong labor market in the first half of this year. But this softer jobs report should ease some of those concerns even with the slight decline in the unemployment rate. In addition, easing wage growth should help gradually push inflation back to the central bank's 2% objective. The fed funds futures market is pricing in a 77% probability of at least one 25 basis point increase in the fed funds rate by the end of this year, and a 35% probability of multiple rate hikes in 2026. But those numbers are down from 83% and 41% yesterday, and expectations around tightening have eased with the June jobs report. PNC's baseline forecast remains no change in the fed funds rate through the rest of 2026 and into 2027, with the rate staying in its current 3.50% to 3.75% range.

The S&P 500 opened slightly higher and then moved higher over the morning. The yield on the 3-month Treasury bill is down by 4 basis points to 3.76% on reduced expectations for monetary policy tightening. Longer-term Treasury yields are little changed. The dollar is down against a basket of foreign currencies. The price of a barrel of West Texas Intermediate crude oil is down more than 1% to below $68 on expectations for weaker growth.

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