Economic Update

March 7, 2025

Continued Moderate Job Growth in February, With Unemployment Rate Up Slightly

- **The February jobs report was normal, despite all the speculation, with job growth close to the recent pace and a small increase in the unemployment rate.**
- **Employers added 151,000 jobs over the month, with the unemployment rate rising to 4.1%.**
- **Wages increased 0.3% in February, consistent with recent months.**
- **The average workweek so far in 2025 has been below its post-pandemic range.**
- **Federal government job losses will start to show up in the March jobs report, weighing on overall employment growth.**
- **The labor market remains solid in early 2025, but risks are to the downside.**

The first jobs report of the Trump administration shows little change compared to the labor market of recent months. The number of jobs, as measured in a survey of employers from the Bureau of Labor Statistics, increased by 151,000 in February from January. Private sector employment increased by 140,000 in February, with government job growth of 11,000, including a net decline of 10,000 in federal government employment.

Job growth in December was revised higher by 16,000 to 307,000, while job growth in January was revised lower by 18,000 to 125,000, with a net downward revision of 2,000. Over the past three months job growth has averaged 200,000, and for all of 2024 job growth averaged 168,000.

The unemployment rate rose slightly to 4.1% in February from 4.0% in January. After falling to 3.4% for a couple of months in 2023, the unemployment rate has risen slightly and has been between 4.0% and 4.2% since May 2024. The unemployment rate has been stable around the 4.2% rate that the Federal Open Market Committee thinks is consistent with their inflation objective of 2%.

In a survey of households, different from the survey of employers, employment fell by 588,000 in February from January. Employment tends to be more volatile in the household survey compared to the employer survey. This was the largest decline in household employment since December 2023. The labor force—the number of people working or looking for work—fell by 385,000 in February. The labor force participation rate, the share of adults in the labor force, fell to 62.4% in February from 62.6% in January; this is the lowest the labor force participation rate has been since January 2023, when the labor market was still recovering from the pandemic. The labor force participation rate has been between 62.4% and 62.8% for more than two years. This is below the 63%+ rate prior to the pandemic, and the labor market is structurally tighter now than it was pre-pandemic.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

The average workweek held steady at 34.1 hours for a second straight month; it is down from 35.0 hours in early 2021, during the initial economic recovery from the pandemic. The last time average weekly hours were 34.1 was in March 2020 when the pandemic was just starting, and it has not been at or below 34.1 hours for two consecutive months since 2010, when the economy was recovering from the Great Recession. Continued weakness in the average workweek going forward would be a signal of softening labor demand.

Average hourly earnings rose 0.3% in February from January, after a 0.4% increase in January (revised lower from 0.5%). On a year-ago basis average hourly earnings were up 4.1% in February, unchanged from January, and average wage growth has been around 4% since the fall. This is down from close to 6% in early 2022, when the historically tight labor market was driving very strong wage growth. But it is up from below 3.5% before the pandemic, and strong wage growth is one reason why progress in slowing inflation to the Federal Reserve's 2% objective has been uneven recently.

With more jobs, an unchanged workweek, and a moderate increase in wages, total labor market income increased 0.4% in February from January. This outpaced expected inflation of 0.2% (CPI report to be released Wednesday, March 12). As long as the labor market remains solid and incomes are rising, consumer spending should continue to increase. And since consumer spending makes up about two-thirds of the US economy, this means the current expansion should continue.

Private goods-producing industries added 34,000 jobs in February, the best month since mid-2023, with gains of 19,000 in construction and 10,000 in manufacturing. Private services-providing industries added 106,000 jobs in February, including gains of 63,000 in health care, 21,000 in financial activities, and 18,000 in transportation and warehousing. Employment fell by 16,000 in leisure/hospitality services and 6,000 in retail trade.

Federal government employment fell by 10,000 over the month, the biggest decline since mid-2022. Federal government job losses will be much larger in the coming months. Most of the job losses for transitional federal government employees occurred after the BLS collected the data for the jobs report, and so should show up in the March numbers. And federal employees who took buyout offers are still counted as employed until their payouts end in the fall.

The February jobs report was, in a word, normal. Despite chatter that Trump administration policies would have a big impact on the labor market data, there was little sign of that in February. Job growth was near the recent pace, the unemployment rate was in the middle of the range where it has been since the summer, and wage gains continued.

There were a couple of things in the report worth watching going forward. Employment as measured in the household survey fell sharply, although that number is volatile. The labor force participation rate moved down. The average workweek has moved lower in 2025. And federal government job losses will be much larger through the rest of this year, weighing on overall job growth. But the labor market in early 2025 is very solid, with good job growth, a low unemployment rate, and wages that are rising faster than inflation.

This is the kind of jobs report the Federal Open Market Committee wants to see. Inflation is still running higher than the Fed would like, at around 2.5%, but that is much lower than it was a couple of years ago. Progress on inflation could be uneven in the near term given tariffs, but it should gradually subside, and PNC expects two 25 basis point cuts in the federal funds rate in the middle of 2025, which would take the rate to a range of 3.75 to 4.00% by the fall, down from close to 5.5% in mid-2024. Lower interest rates should support an uptick in job growth toward the end of 2025, supporting rehiring of laid-off federal workers.

But risks to the labor market outlook are high. Federal government job losses could be larger than expected, and laid-off workers could pull back on their spending, leading to slower job growth in other industries. Uncertainty about the outlook for tariffs could lead businesses to slow their hiring. And restrictions on immigration could limit the supply of labor available, weighing on employment gains over the next few years.

Stock prices are down slightly on the day. Yields on longer-term Treasurys are little changed, with the 10-year yield at 4.26%. The dollar has weakened a bit against a basket of currencies. The price for West Texas Intermediate crude oil is up by about $1.20 on the day, but at around $67.60 is still near its 2025 low.

The likelihood of a fed funds rate cut at the FOMC's next meeting, later this month, fell from 12% yesterday to 3% today as the solid jobs report provided reassurance that the economy is still holding up. The market expects the next rate cut to come at the FOMC's early May meeting, with cumulative rate cuts of around 75 basis points in 2025.

PNC Economics
Gus Faucher, Chief Economist
economics@pnc.com

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