Economic Update

May 2, 2025

Another Solid Jobs Report in April, But Tariffs a Likely Drag Later This Year

- **Job growth was better than expected in April at 177,000, although there were downward revisions to job growth in February and March. Overall government employment was up, but there were small federal government job losses.**
- **The unemployment rate held steady at 4.2%, near where it has been for the past year.**
- **The U.S. economy continues to expand in the spring of 2025, but PNC expects weaker job growth and a rising unemployment rate through the rest of the year.**
- **The FOMC is unlikely to cut the fed funds rate when it meets next week, but PNC is forecasting monetary easing in the second half of 2025.**

Job growth in April came in above expectations at a solid 177,000, according to a survey of employers from the Bureau of Labor Statistics. The consensus expectation was for job growth of about 130,000. There were downward revisions to job growth in February (to 102,000 from 117,000) and March (to 185,000 from 228,000) of a combined 58,000. The three-month moving average of job growth through April was 155,000, up from 133,000 in the three months through March, but down from monthly averages of 168,000 in 2024 and 216,000 in 2023 as the labor market continues to normalize from the pandemic. The private sector added 167,000 jobs in April, with government job gains of 10,000; federal government employment fell by 9,000 over the month.

The unemployment rate was unchanged in April at 4.2%. After falling to 3.4% briefly in 2023, the unemployment rate rose in late 2023 and early 2024, but has been between 4.0% and 4.2% for the past year. This is around the unemployment rate that the Federal Reserve views as their legislative mandate of maximum employment.

Employment as measured in a survey of households (different from the survey of employers) rose by 436,000 in April; household employment tends to be more volatile than establishment employment. The three-month moving average of job growth in the household survey through April was 16,000.

The labor force—the number of people working or looking for work—increased by 518,000 over the month. The labor force participation rate, which is the share of adults working or looking for work, rose to 62.6% from 62.5% in March. The labor force participation rate has been between 62.4% and 62.8% since the beginning of 2023. The labor force participation rate was above 63% prior to the pandemic, and the current labor market is structurally tighter than the pre-pandemic one.

The average workweek was unchanged from March at 34.3 hours (March revised higher from 34.2), and up from 34.2 hours in February and 34.1 hours in January. But the three-month average of the workweek is still near its lowest level in almost 15 years, during the recovery from the Great Recession. Firms often cut hours

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before they cut employment, so the softness in the average workweek could be a leading indicator of slower job growth ahead.

Average hourly earnings increased 0.2% over the month, to $36.06. This followed gains of 0.2% in February and 0.3% in March. On a year-ago basis average hourly earnings were up 3.8% in April, the same pace as in March. Annual wage growth has been between 3.6% and 4.2% for more than a year; this is a slowing from growth of close to 6% in early 2022, but above the pre-pandemic pace of around 3%. Wage growth of around 4% is one reason why inflation has been stuck above the Federal Reserve's 2% objective in 2024 and 2025.

With more jobs, an unchanged workweek, and a modest increase in wages, total labor market income rose 0.2% in April from March. This was softer than the 0.7% increase in March and the 0.6% increase in February. But it should match the 0.2% increase in consumer prices (April CPI to be released on May 13).

Goods-producing industries added 11,000 jobs in April, with gains of 11,000 in construction but small job losses in manufacturing. Private services-providing industries added 156,000 jobs over the month, led by an increase of 70,000 in education/health services. Transportation and warehousing employment rose by 29,000, and there was an increase of 14,000 in financial activities. Professional/business services employment rose by 17,000 in April, including an increase of 4,000 in temporary help services. That was only the third increase in temporary help employment over the past three years; it could be that businesses are concerned about taking on full-time employees given uncertainty about the economic outlook, and are instead turning to temporary workers to meet staffing needs.

Government employment rose by 10,000 in April, with an increase of 19,000 at the state and local levels more than offsetting federal government job losses of 9,000. Federal government employment has fallen by 26,000 since January as job cuts under the Trump administration take hold. Those cuts will pick up later this year; workers who took severance packages are still counted as employed while they are still being paid.

The diffusion index, which measures the breadth of job growth across industries, was 54.6 in April, up from 54.0 in March. A reading of above 50 means more industries added jobs than lost jobs over the month.

The April jobs report came in better than expected, with no indication yet that higher tariffs or federal government spending cuts are leading to widespread job losses. There were a few isolated concerns—a short average workweek, small federal government job losses, and an increase in temporary hiring—but overall this was a solid report, indicating that the economy is expanding in the spring of 2025, notwithstanding the drop in real GDP in the first quarter. There was a noticeable uptick in initial claims for unemployment insurance in the week ending April 26, but that was after the data were collected for the April jobs report. But claims can be volatile, and one shouldn't read too much into one week of data. That being said, if there is labor market weakness, it will show up in the claims data first, so that bears close watching in the weeks ahead.

PNC does expect the labor market to soften noticeably through the rest of 2025 as tariffs weigh on the economy. Job gains will slow, although outright job losses are not expected, and the unemployment rate is set to increase in the months ahead, to about 5% over the next year.

Given the strong jobs data the probability of a cut in the federal funds rate at the next FOMC meeting (May 7) has fallen to 3% from 6% yesterday, according to the fed funds futures market. The market is just about split between cumulative rate cuts of 75 and 100 basis points by the end of the year; PNC's forecast is for cuts of 25 basis points at each of the four FOMC meetings in the second half of 2025 (100 basis points cumulative easing).

The yield on the 10-year Treasury note is up by 5 basis points this morning to 4.28% on expectations of less Fed easing in 2025. The S&P 500 opened about 1% higher on the solid jobs report. The price of a barrel of West Texas Intermediate crude oil is down by 0.8% this morning to below $59. The U.S. dollar has weakened slightly against a basket of currencies.

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