July 3, 2025

Job Growth Surprises to the Upside in June, Unemployment Rate Down

- **Job growth was better than expected in June, at 147,000, with upward revisions to job gains in April and May.**
- **The unemployment rate fell slightly to 4.1%.**
- **Wage growth was moderate, near the recent pace, although the average workweek declined.**
- **The breadth of job growth is a concern.**
- **Market reaction to the jobs report was positive, with reduced expectations for near-term fed funds rate cuts.**

U.S. job growth surprised to the upside in June, with an increase in employment of 147,000, based on a survey of employers by the Bureau of Labor Statistics. Expectations were for job growth of 110,000. There were modest upward revisions to job growth in April (to 158,000 from 147,000) and May (to 144,000 from 139,000) of a combined 16,000. Over the past three months job growth has averaged a solid 149,000. Although this is down from average monthly job gains of above 200,000 in 2023 and around 170,000 in 2024, the labor market remains in solid shape. The private sector only accounted for about one-half of job growth in June, at 74,000, with government job gains of 73,000. Federal government employment fell by 7,000 over the month, and has fallen by 69,000 since January.

The unemployment rate fell slightly to 4.1% in June from 4.2% in March through May. The unemployment rate has been between 4.0% and 4.2% since May 2024, after increasing from a cyclical low of 3.4% in 2023. Although the unemployment rate is higher than it was a couple of years ago, it remains historically low, and is consistent with what the Federal Reserve views as its mandate of "maximum employment."

The number of people employed in a survey of households (different from the survey of employers) rose by 93,000 in June, after falling by almost 700,000 in May. Employment tends to be more volatile in the household survey compared to the employer survey. Over the last three months employment in the household survey has fallen by an average of 47,000 per month.

The labor force—the number of people working or looking for work—contracted by 130,000 in June from May. The labor force participation rate, which is the share of adults working or looking for work, fell to 62.3% in June from 62.4% in May and 62.6% in April. This is the first time the labor force participation rate has been this low since late 2022, when the economy was recovering from the pandemic. The labor force participation rate

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had been between 62.4% and 62.8% through all of 2023 and 2024, and the first five months of 2025. It could be that an aging population and stricter enforcement of immigration laws is starting to weigh on the labor force.

The average workweek fell to 34.2 hours in June from 34.3 hours in April and May. The average workweek has been gradually slowing for the past four years, a sign of softening demand for labor.

Average hourly earnings rose 0.2% in June from May, after increasing by 0.4% in April. Over the past year the average wage has risen by 3.7%, and wage growth has been around 4% since late 2023. Wages continue to increase faster than prices. With more jobs, a shorter workweek, and a higher average wage, payrolls were flat in June from May.

Goods-producing industries added 6,000 jobs in June, with the loss of 7,000 jobs in manufacturing and an increase of 15,000 jobs in construction. Private service-providing industries added 68,000 jobs over the month, including gains of 51,000 in education/health services and 20,000 in leisure/hospitality services. Federal government employment dropped by 7,000 in June, but state government employment rose by 47,000 and local government employment by 33,000. Federal workers who took buyouts and are still receiving pay are counted as employed until those payments expire in the fall.

The diffusion index—a measure of the breadth of job growth across industries—was 49.6 in June, meaning slightly more industries lost jobs over the month than added jobs. However, the diffusion index for May was revised higher from 50 (equal numbers of industries adding and losing jobs) in May to 51.8 in June. But the April diffusion index was revised down, to 48.2 from 51.8. Outside of April and June the diffusion index has been below 50 for only one month since the pandemic in 2020, suggesting that job market may be losing some steam.

The June jobs report was solid. Not only was job growth good in June at 147,000, but there were upward revisions to growth in April and May, with average monthly gains of about 150,000 in the second quarter. The unemployment rate fell slightly as employment in the household survey bounced back after a sharp drop in May.

But there are a few warning signs. Employment in the household survey is down over the past three months. The average workweek is falling, possibly a precursor to weaker job growth in the near term. And the breadth of job growth is weakening. More industries have lost jobs than added jobs in two of the past three months. Over the past year one-half of all job growth has come from education/health services, and another 14% from leisure/hospitality services. And almost one-half of job growth in June came from the public sector. Federal government employment has fallen, but workers who take buyouts are still counted as employed, so big job losses will start to show up there in the next few months.

PNC expects job growth to weaken further in the near term. Demand for labor is softening as tariffs and the uncertainty they are creating have led businesses to turn more cautious. PNC’s forecast is for the unemployment rate to climb gradually to around 4.5% by early 2026. Over the longer term restricted immigration flows will weigh on labor force growth, limit labor supply, and constrain job growth.

With the solid jobs report market expectations for a cut in the federal funds rate at the Federal Open Market Committee’s next meeting, at the end of July, have fallen from 24% yesterday to around 5% today. The fed funds futures market is now pricing two 25 basis point rate cuts by the end of 2025, down from three rate cuts priced in yesterday. PNC’s June fed funds rate forecast is for one 25 basis point cut in the fed funds rate at the FOMC’s last meeting of 2025, with two rate cuts in early 2026.

Market reaction is positive. The S&P 500 opened 0.4% higher this morning. The 10-year Treasury yield is up by 5 basis points to 4.34% this morning, with the three-month yield up by 1 basis point to 4.35%. The price of a barrel of West Texas Intermediate crude is down 0.4% to $67.16. The dollar has strengthened against other currencies on reduced expectations for fed funds rate cuts this year.

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