



## Weak Job Growth in August, With Worrisome Details; The Labor Market Is Quickly Softening

### Headlines

- Job growth was a weak 22,000 in August, with net downward revisions to job growth in June and July. The labor market is quickly softening.
- The unemployment rate rose to 4.3%, its highest level since 2021.
- The breadth of job growth remains a major problem.
- The weak August jobs report means the FOMC will definitely cut the fed funds rate when it meets next week.
- Recession risks are elevated with the soft labor market.

### Details

Job growth was again disappointing in August, with net gains of just 22,000 in August from July, according to a survey of employers from the Bureau of Labor Statistics. The consensus expectation was for job growth of 75,000. There were also net downward revisions to job growth in June and July of 21,000. June showed a job loss of 13,000, the first monthly decline in employment since December 2020, during a pandemic surge. Job growth in July was revised somewhat higher to 79,000 from 73,000. Over the past three months job growth has averaged a very weak 29,000. This was below the July three-month moving average of 35,000 (before revisions) and is the weakest three months of job growth since the economy was losing millions of jobs during the pandemic. The private sector added 38,000 jobs in August, with government job losses of 16,000.

The unemployment rate rose slightly to 4.3% in August, from 4.2% in July and 4.1% in June. This is the highest the unemployment rate has been since October 2021, as the economy was recovering from the pandemic. The unemployment rate has been near 4% for the past year and is still historically low, but is up from around 3.5% in mid-2022 to mid-2023. However, the data behind the increase in the unemployment were generally good. The number of people employed in a survey of households (different from the survey of employers) rose by 288,000, the biggest increase since April. Employment tends to be more volatile in the household survey compared to the employer survey. The number of people in the labor force (working or looking for work) rose by 436,000, the first increase since April. With an increase in household employment, but an even larger increase in the labor force, the unemployment rate rose slightly.



The labor force participation rate, the share of adults either working or looking for work, rose to 62.3% in August from 62.2% in July. The labor force participation rate 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 are starting to weigh on the labor force.

The average workweek was 34.2 hours in August, while the workweek in July was revised lower to 34.2 hours from 34.3 hours in the preliminary estimate. The average workweek is softening in the summer of 2025; weakness in hours worked often leads job losses, as businesses cut back on hours before employment.

Average hourly earnings growth was 0.03% in August from July, near the recent pace. On a year-over-year basis wage growth was 3.7% in August, down from 3.9% in July. Weaker wage growth may offset some of the inflationary cost pressures coming from tariffs, but is also a drag on household incomes and consumer spending.

The diffusion index, a measure of the breadth of job growth, remained weak in August at 49.6; a reading below 50 indicates more industries lost jobs over the month than added jobs. The diffusion index was also revised lower in July, to 48.0 from 51.2. The diffusion index has now been below 50 for five straight months, a worrisome sign.

Healthcare employment rose by 47,000 in August, meaning that there were net job losses in all industries except for healthcare over the month. Over the past year healthcare has accounted for more than one-half of job gains, an unsustainable trend. Goods-producing industries lost 38,000 jobs in August, with lower employment in both manufacturing and construction. Manufacturing employment has declined for four straight months. Private-services providing industries added 63,000 jobs in August. In addition to the increase in healthcare, there were also gains in retail trade and leisure/hospitality services, suggesting that consumer spending is still holding up. But there were jobs losses in other private service industries, including professional/business services, wholesale trade, and financial activities.

Federal government employment fell by 15,000 in August, with a small decline state government employment offsetting a small increase in local government. Federal government employment has fallen by almost 100,000 since the beginning of the year, and federal job losses are set to accelerate in September as workers' severance payments run out and they are no longer counted as employed.

The labor market is quickly softening in mid-2025. Job growth is barely positive, and the unemployment rate is as high as it has been in almost four years. Other measures, such as the breadth of job growth and average hours worked, also indicate softness. The lone bright spots in the August jobs report were increases in employment and the labor force in the household survey, but given the volatility in those numbers they could quickly reverse.

The weak jobs report makes a 25 basis point federal funds rate cut at the September 17 Federal Open Market Committee a done deal. The question now is how much the FOMC cuts the fed funds rate in the months ahead. PNC's baseline forecast is for 25 basis point cuts at each of the next four FOMC meetings. This would take the fed funds rate to a range of 3.25% to 3.50% by late January 2026. The fed funds futures market is pricing in an 88% probability of a 25 basis point rate cut on September 17, with a 12% probability of a 50 basis point cut. The fed funds futures market is pricing in a two-thirds probability of a cumulative 75 basis points worth of cuts by the end of this year, consistent with PNC's forecast.

The weak jobs report also increases recession concerns. The labor market has seen a remarkable recovery from the pandemic, but job growth has slowed dramatically this year. PNC's baseline forecast is for weak economic



growth over the next year and a somewhat higher unemployment rate, but no recession. Sustained job losses would likely lead to cutbacks in consumer spending and a recession.

Market reaction was mixed. Stocks opened slightly higher on the day, despite the weak report. The yield on the 10-year Treasury note is down 7 basis points to 4.09% on expectations for weaker growth and slower inflation. The yield on the 3-month Treasury bill is down 8 basis points to 4.03% on expectations for looser monetary policy. The price of a barrel of oil is down more than 2% to just above \$62 on expectations for weaker growth. The U.S. dollar has weakened against a basket of currencies with increased expectations for fed funds rate cuts.

**Please reach out with any questions,**

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