Market Expectations Survey

June 6, 2025

Another Month of Solid Job Growth in May, But Big Downward Revisions to March and April; Unemployment Rate Steady but Carries Warning Sign

- Topline job growth of 139,000 in May was decent and close to expectations, but the details were not as good.
- There were large downward revisions to job growth in March and April. Job growth is slowing in 2025.
- The unemployment rate was steady at 4.2% in May, but there was a drop of almost 700,000 in employment in the household survey.
- Job growth is increasingly concentrated in a few industries.
- Recession risks are elevated due to tariffs.
- The Fed remains on hold for now.

The U.S. economy added 139,000 jobs in May, according to a survey of employers from the Bureau of Labor Statistics, close to the consensus expectation. However, there were large downward revisions to job growth in March (to 120,000 from 185,000) and April (to 147,000 from 177,000), of a combined 95,000. Over the three months through May job growth has averaged 135,000. This is down from above 200,000 in January. The private sector added 140,000 jobs in May; government employment fell by 1,000, including federal job losses of 22,000.

The unemployment rate held steady at 4.2%, where it has been since March. The unemployment rate is up from 3.4% in 2023 but remains near historic lows. The rate has been between 4.0% and 4.2% for a year. Employment in a survey of households (different from the survey of employers) dropped by almost 700,000 in May from April. This number is more volatile than that from the employer survey, but oftentimes picks up changes in the labor market ahead of the employer number. Jobs losses in the household survey have averaged 11,000 over the past three months.

The labor force—the number of adults working or looking for work—fell by 625,000 in May. The unemployment rate held steady in May, even with big job losses in the household survey, because there were many fewer people in the labor market. The labor force participation rate, which is the share of adults working or looking for work, fell to 62.4% in May from 62.6% in April. The labor force participation rate has been between 62.4% and 62.8% since early 2023, when the labor market was recovering from the pandemic. But the rate was above 63% before the pandemic, so the post-pandemic labor market is structurally tighter.

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Average hourly earnings rose 0.4% in May from April, the largest monthly average wage increase since January. From a year earlier average hourly earnings were up 3.9%. Wage growth has been running at around 4% since 2024; this is a slowdown from close to 6% in 2022 when the labor market was very hot, but up from just above 3% before the pandemic.

The average workweek was 34.3 hours in May, the same as in April and March. With more jobs, higher wages, and an unchanged workweek, total payrolls increased by 0.5% in May from April. This is well above likely consumer inflation of 0.2% over the month (CPI to be released June 11).

Goods-producing industries lost 5,000 jobs in May, including job losses of 8,000 in manufacturing, but an increase of 4,000 in construction. Private services-providing industries added 145,000 in May, including gains of 87,000 in education/health services, 48,000 in leisure/hospitality services, and 13,000 in financial activities. But employment fell by 18,000 in professional/business services and 6,000 in retail trade. Since January federal government employment has fallen by a cumulative 59,000 as efforts to trim the federal workforce take hold. Workers who took buyouts and are still receiving pay are counted as employed until those payments expire in the fall. While federal employment fell over the month, that was almost fully offset by local government job gains of 21,000.

The diffusion index—a measure of the breadth of job growth across industries—was exactly at 50 in May, meaning that as many industries lost jobs as added jobs over the month. This is the lowest the diffusion index has been since it dropped below 50 for one month in July 2024, but then bounced back.

The headline number in the May jobs report was good, but the details were weaker. There were large downward revisions to job growth in March and April, and job gains have been shrinking this year. Job growth is increasingly concentrated in education/health services (accounting for 50% of all job gains over the past year) and to a lesser extent leisure/hospitality services (13%), and the diffusion index has been trending lower this year. Employment also fell sharply in the household survey. This could be noise—the household survey number often has big swings—but could also be an indicator of a more substantive softening in the labor market. The only reason the unemployment rate did not increase was that the labor force also contracted over the month, which could be an indication that potential workers are becoming discouraged. Additionally, initial claims for unemployment insurance have been moving higher in recent weeks, suggesting that job cuts are picking up.

But other indicators are less worrisome. There is no sign that employers are cutting back on working hours, which they often do ahead of job cuts. And the U-6 unemployment rate, which includes workers who are part-time but would like to be full-time and people who would like a job but are too discouraged to look for one, has not increased in recent months.

Still, the labor market is definitely slowing in 2025 as concerns about tariffs and federal spending cuts take hold. The most likely outcome is weaker job growth and a slightly higher unemployment rate through the rest of this year, but not a recession. But the labor market could turn quickly south in the months ahead if employers lose confidence because of tariffs.

Today's jobs report does not change the outlook for monetary policy. The Federal Open Market Committee remains on hold for now as tariffs are set to cause a reacceleration in inflation in the months ahead. At the same time the labor market is looking a little softer but is not yet signaling recession. Given this the FOMC will keep its short-term policy interest rate, the federal funds rate, in its current range of 4.25% to 4.50% until there is more clarity about the economy. Assuming the acceleration if inflation is temporary and the labor market continues to hold up, the next move is likely a cut in the fed funds rate, but not until the end of 2025.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 6/18/25)	4.375-4.375%	4.375%	4.375%	4.375%. The Federal Open Market Committee to leave the fed funds rate unchanged in June.
May CPI (6/11, Wednesday)	0.1-0.3%	0.2%	0.2% (Apr)	0.2%. Overall CPI to rise 0.2% in May, on par with the increase in April.
May CPI (ex-food & energy) (6/11, Wednesday)	0.2-0.5%	0.3%	0.2% (Apr)	0.3%. Core CPI growth to accelerate slightly in May.
May PPI (6/12, Thursday)	0.1-0.4%	0.2%	-0.5% (Apr)	0.1%. Producer price growth to rebound in May.
May PPI (ex-food & energy) (6/12, Thursday)	0.1-0.4%	0.3%	-0.4% (Apr)	0.2%. Core producer prices to rise modestly in May after slipping in April.
Initial Claims, Wk of 6/7/25 (6/12, Thursday)	238-245K	241K	247K (5/31/25)	238K. Jobless claims to moderate but remain above the four-week moving average.
June U. Mich. Consumer Sentiment (prelim) (6/13, Friday)	51.5-57.0	52.5	52.2 (May)	56.0. Higher stock prices and lower tariffs on China will lift sentiment but to a still very low level.

Monthly Calendar of Economic Data: June 2025

June 11

Consumer Price Index

	Total	Core
Mar	-0.1	0.1
Apr	0.2	0.2
May		

June 12

Producer Price Index

	Total	Core
Mar	0.0	0.2
Apr	-0.5	-0.4
May		

Unemployment Claims (000)				
Feb	**Mar**	**Apr**	**May**	**June**
222	224	224	229	
215	223	216	228	
224	225	223	226	
243	225	241	239	
	219		247	

June 13

June U. Mich. Consumer Sentiment (prelim)

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