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Economic Briefing

US labor market weaker, but not weak

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In May, US employment rose by a respectable 139,000. However, the gains in the previous months were revised significantly downward. The labor market has so far been little affected by the trade conflict. However, many negative effects are likely still in the pipeline. We therefore expect weaker figures in the coming months, albeit no recession, and interest rate cuts by the Fed from September onwards.

The data …

In May, job growth in the US amounted to 139,000. This is about in line with expectations (consensus 125,000, Commerzbank 150,000). However, the data for prior months were revised down by a combined 95,000. The unemployment rate remained at 4.2%. Average hourly earnings rose by 0.4% from the previous month, thus increasing slightly more strongly again. As in April, wages rose by 3.9% year-on-year, with the April figure being revised upwards from 3.8%.

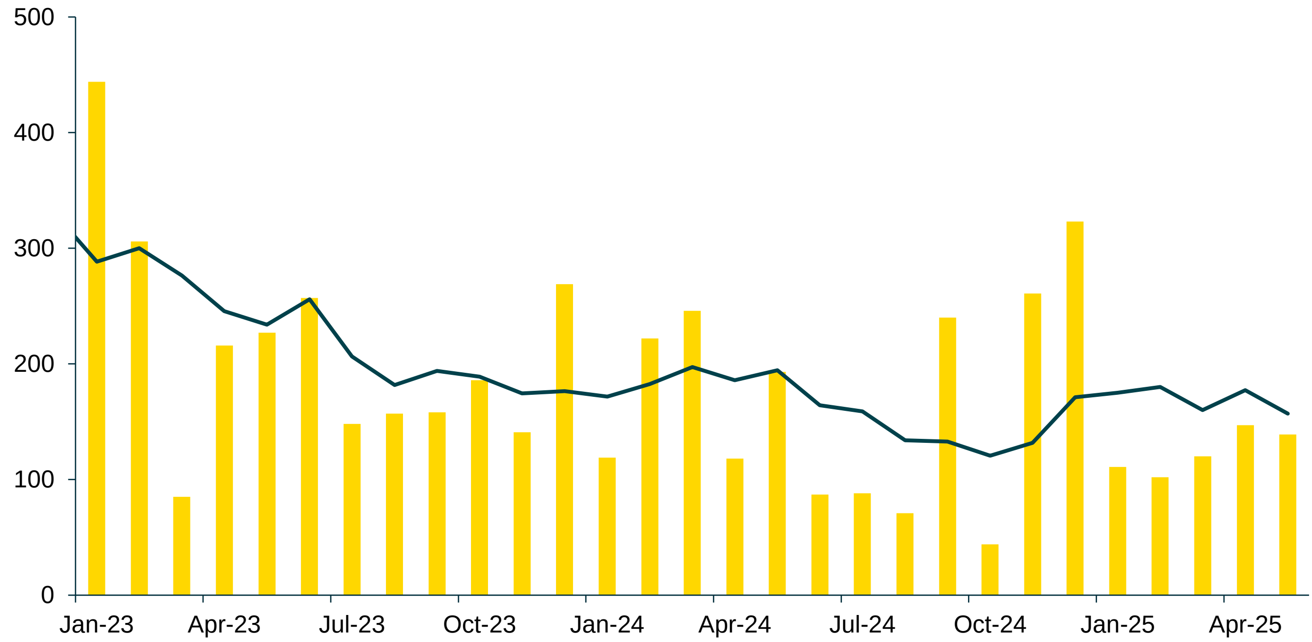
… and the interpretation

This means that US employment rose significantly again in May. However, the increases in previous months were revised significantly downward. In March, the figure was 120,000 (instead of the previously reported 185,000), and in April it was 147,000 (previously: 177,000). The average monthly increases have thus leveled off at between 100,000 and 150,000 in 2025 (Chart 1). This is significantly less than a year or two ago, but still quite solid. In any case, it is sufficient to keep the unemployment rate largely stable. At 4.2%, it remained unchanged for the third month in a row, but at 4.244% it was close to rounding higher and also slightly higher than in January (4.0%).

However, there is certainly no sign of a slump in the labor market. The frequently cited massive increase in uncertainty due to tariffs has not yet had a noticeable negative impact. However, the effects of the tariffs are only beginning to be felt. We continue to expect employment growth to slow in the coming months and unemployment to rise slightly.

Chart 1 - Payroll gains weaker, but not weak

nonfarm payrolls, month-on-month change in thousands. Line: six-month moving average



Source: BLS, S&P Global, Commerzbank Research

The Fed could soon cut interest rates

The labor market is gradually weakening somewhat, while inflation is also easing. However, it is not so weak that the Fed is under significant pressure to cut interest rates. At the same time, the inflation risks posed by the tariff increases argue against lower interest rates. The Fed must therefore weigh the risks of rising unemployment and excessive inflation. The influential Fed governor Waller recently stated “given my belief that any tariff-induced inflation will not be persistent and that inflation expectations are anchored, I support looking through any tariff effects on near-term inflation when setting the policy rate.” Waller would therefore lower interest rates if there were signs of economic weakness. We assume that this will ultimately be the majority opinion within the Fed and expect an interest rate cut in September. However, the Fed is likely to take inflation risks into account by lowering interest rates only slowly at quarterly intervalls.

Table 1 - US employment report

	May-25	Consensus	Apr-25	Mar-25	Feb-25	six month average
Nonfarm payrolls	**139**	125	147	120	102	157
Unemployment rate	**4.2**	4.2	4.2	4.2	4.1	4.1

Source: BLS, Bloomberg, S&P Global, Commerzbank Research

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