

Economic Briefing

US labor market shows some cracks

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Bernd Weidensteiner^{AC}

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In June, US non-farm payrolls rose by a surprisingly strong 147,000. However, half of this increase was attributable to the public sector. Average working hours declined slightly. At the same time, the unemployment rate fell slightly. Overall, the figures are therefore mixed. There is still no sign of a real slump in the labor market, even though signs of weakness are evident in some areas. We feel vindicated in our view that the Fed is likely to move toward interest rate cuts, but should hold steady at its next meeting at the end of the month.

The data ...

In June, job growth in the US was 147,000. This is above expectations (consensus 106,000, Commerzbank 110,000). Revisions to data for prior months added a further 16,000. The unemployment rate fell from 4.2% to 4.1%, contrary to expectations of a slight increase to 4.3%. Average hourly earnings rose by only 0.2% from the previous month, thus slowing down again slightly. Compared with the previous year, wages rose by 3.7% after 3.8% in May (revised down from 3.9%).

... and the background

At first glance, the increase in employment in June is a positive surprise. The feared slowdown is not evident here (Chart 1). However, 73,000 of the new jobs were in the public sector, particularly in state and local government education. This unusually high increase is more likely to be due to problems in adjusting for seasonal or calendar effects such as shifts in school holidays or similar technical factors. A counter-movement is to be expected here in July. It is important to note that the private sector created only 74,000 jobs. Furthermore, only a few sectors are contributing to private job creation. Almost all new jobs in the private sector are in private education and healthcare, as well as in leisure and hospitality. In more cyclical sectors such as manufacturing and business services, however, the number of jobs is stagnating or declining. Those who had a job also worked fewer hours on average. All of this clearly shows how the economy has lost momentum.

One of the few positive aspects is that, for the first time since January, the payroll data for the previous months has been revised slightly upward overall. Unemployment has also fallen. However, this is also due to the fact that 130,000 people withdrew from the labor market in June.

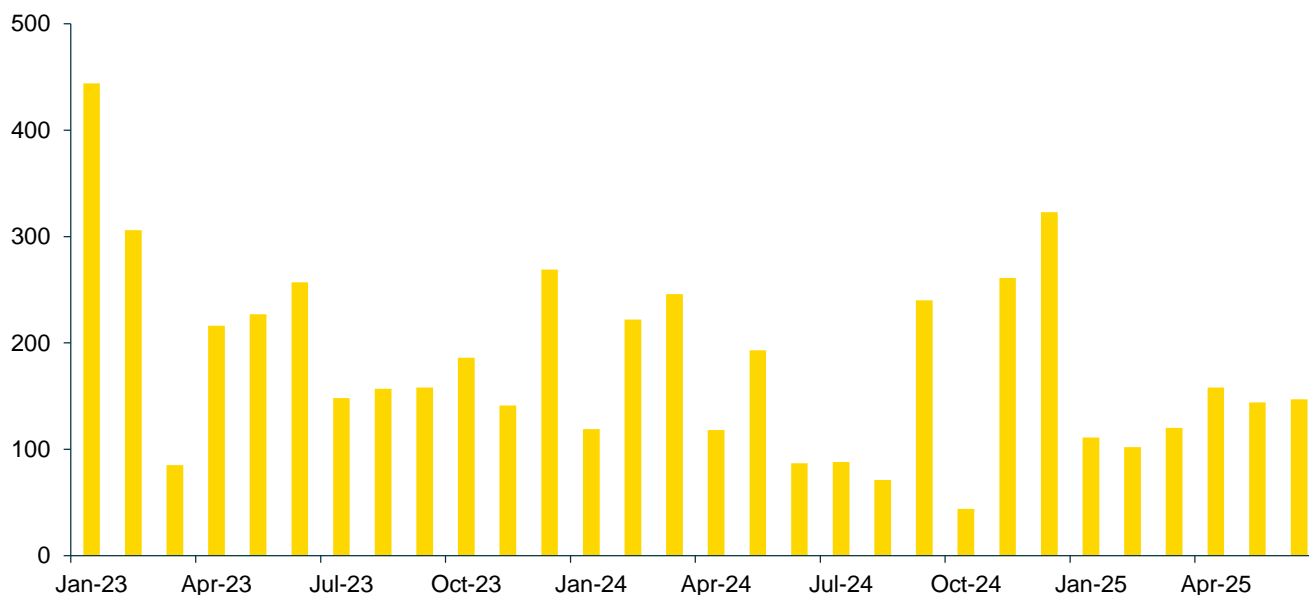
Overall, we see a number of signs of weakness in the labor market. This may be due to uncertainty surrounding tariffs. However, we are not observing a real slump. We see this



as confirmation of our forecast that the US economy will expand more slowly in 2025 but will probably avoid a recession.

Chart 1 - Monthly payroll gains have been between 100k and 150k this year

nonfarm payrolls, monthly change in thousand



Source: BLS, S&P Global, Commerzbank Research

Data take some pressure off the Fed

The Federal Reserve has come under increased pressure from President Trump again in recent weeks. He accuses Jerome Powell of lowering interest rates far too slowly. Given the continuing surprisingly low inflation, this has brought an interest rate cut back into play at the next meeting in July. Today's data takes some pressure off the Fed. After all, the unemployment rate has actually fallen slightly and has been moving sideways at a relatively low level for months. Job growth appears to be strong enough for the time being to prevent a significant deterioration in the labor market.

The stability of the unemployment rate should also reassure the Fed, as a rise in the rate is typically a reliable indicator of a recession – and unlike the employment figures, the unemployment rate is not revised.

Overall, the Fed is moving towards the next interest rate cut, but it can probably wait a little longer until the continuing uncertainties regarding the inflationary impact of tariffs have been clarified. We continue to forecast that the Fed will not cut interest rates already at its next meeting at the end of this month but at the meeting thereafter in September.

Table 1 - US employment report

	Jun-25	Consensus	May-25	Apr-25	Mar-25	six month average
Nonfarm payrolls	147	106	144	158	120	130
Unemployment rate	4.1	4.3	4.2	4.2	4.2	4.1

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



Analysts

Bernd Weidensteiner ^{AC}

Senior Economist

+49 69 9353 45625

bernd.weidensteiner@commerzbank.com

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Frankfurt

Commerzbank AG
DLZ - Gebäude 2, Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000