Economic Research

Economic Insight

US labor market not as dynamic as before

15 September 2025

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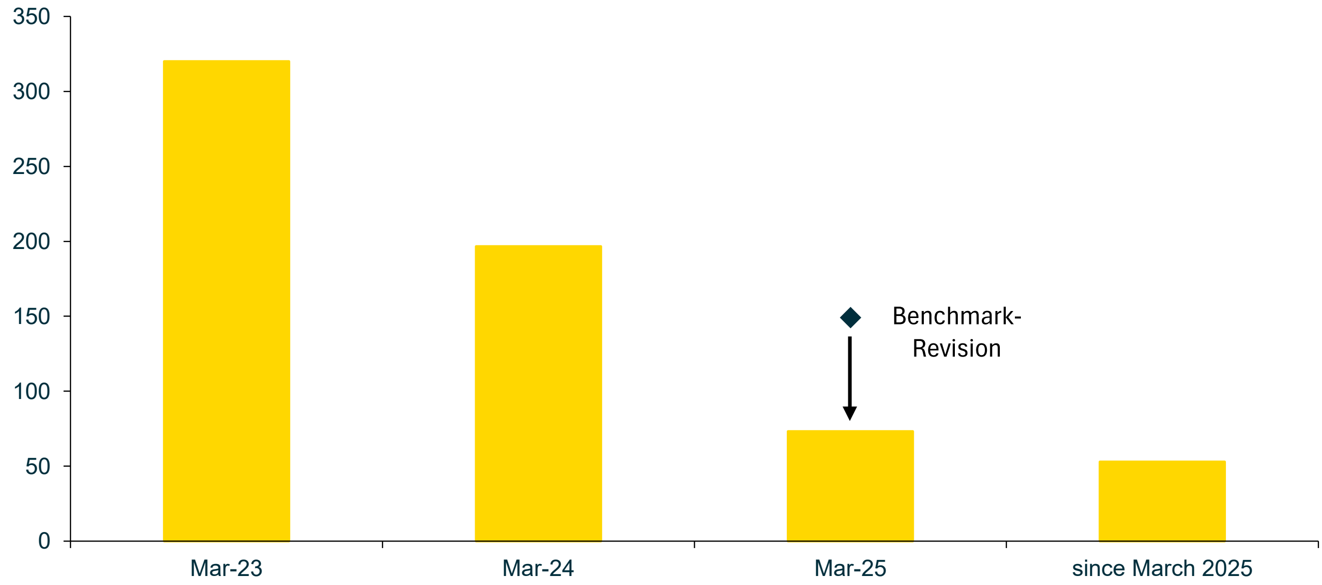
Employment in the US is increasing less dynamic than before. In addition, past payroll data have been revised down significantly as part of the annual benchmark revision. Nevertheless, the unemployment rate has risen only slightly, as not only demand for labor has weakened, but also supply. Projections for employment trends suggest that a return to much higher payroll growth is not to be expected in the long term.

Labor demand is weakening…

The recently published benchmark revision [1] shows that the number of non-farm jobs in March 2025 was 911,000, or about 0.6%, lower than previously reported. Taking the revision at face value, employment would have risen by only 73,000 on average between April 2024 and March 2025. Before the revision, the average monthly increase had been reported at just under 150,000, which is more than twice as high. In the months since March, job growth has been even lower, averaging 53,000 (Chart 1). At the same time, the number of job vacancies has fallen by almost 40% since the beginning of 2022 to around 7.2 million. This also points to a significant cooling of labor demand.

Chart 1 - Benchmark revision indicates slower job growth

Average monthly increase of nonfarm payrolls in the year up to March of respective year and since March 2025 in thousands



Source: BLS, Commerzbank Research

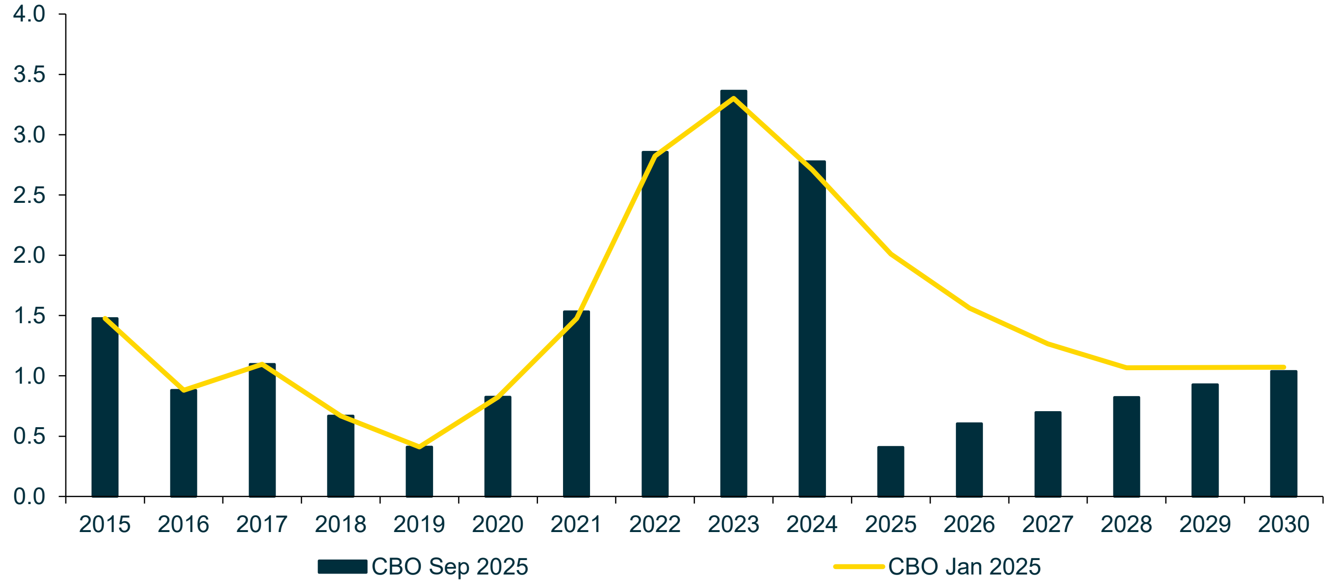
... but also supply ...

However, it is not only the demand for labor that is growing more slowly, but also the supply. This is mainly due to a steep decline in net immigration. According to CBO calculations, significantly fewer people came to the country than in 2023 (3.4 million) and 2024 (2.8 million), and immigration in 2025 might be as low as 0.4 million and thus much lower than expected earlier (Chart 2). Other analyzes even assume even **lower immigration**. In recent years, a considerable proportion of immigrants have found their way into the labor market, thereby increasing the supply of labor. This influx of workers has declined significantly.

Behind this development lies a drastic change in immigration policy by the Trump administration, which has virtually eliminated illegal immigration [2]. In addition, more illegal immigrants have been deported and the requirements for legal immigration have been tightened in some cases.

Chart 2 - Immigration wave broke

CBO projections of net immigration as of January and September 2025, in millions



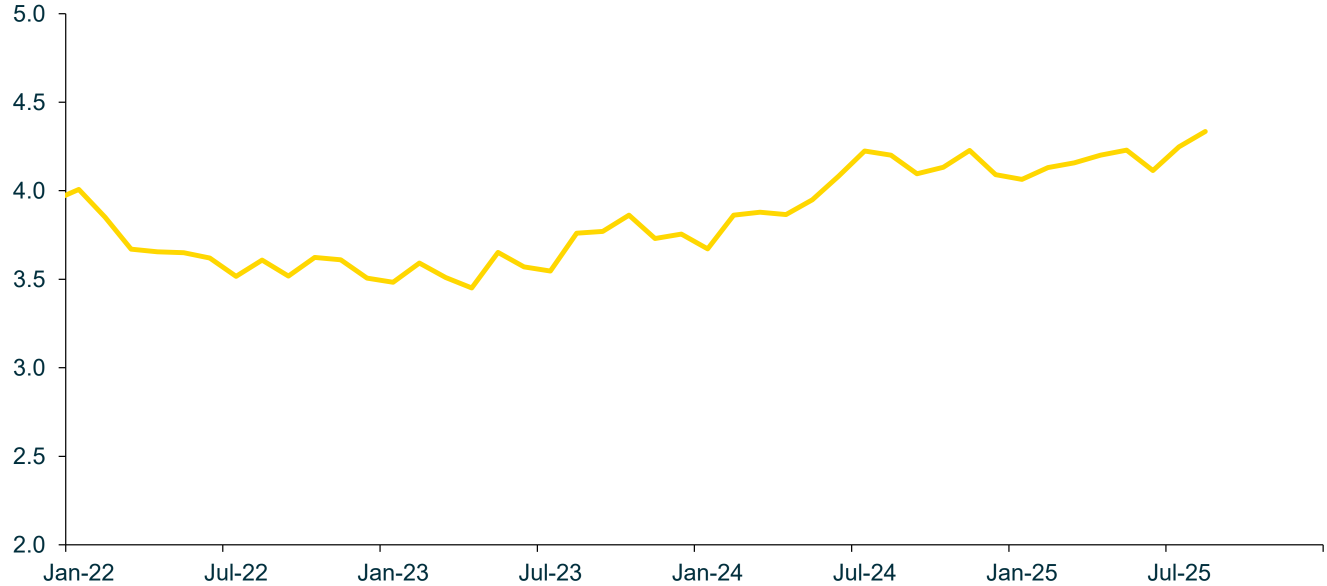
Source: CBO, Commerzbank Research

… so that the unemployment rate rises only modestly

Due to the simultaneous weakening of demand and supply in the labor market, the unemployment rate has risen only slightly. At 4.3% in August 2025, it was only 0.1 percentage points higher than a year earlier (Chart 3). In 2023 and 2024, the rate averaged 3.8% [3]. Ultimately, the relatively stable – and consistently low – unemployment rate is the decisive factor for policymakers and the Fed.

Chart 3 - Unemployment rate only rose slightly so far

Unemployment rate in %, monthly data



Source: BLS, S&P Global, Commerzbank Research

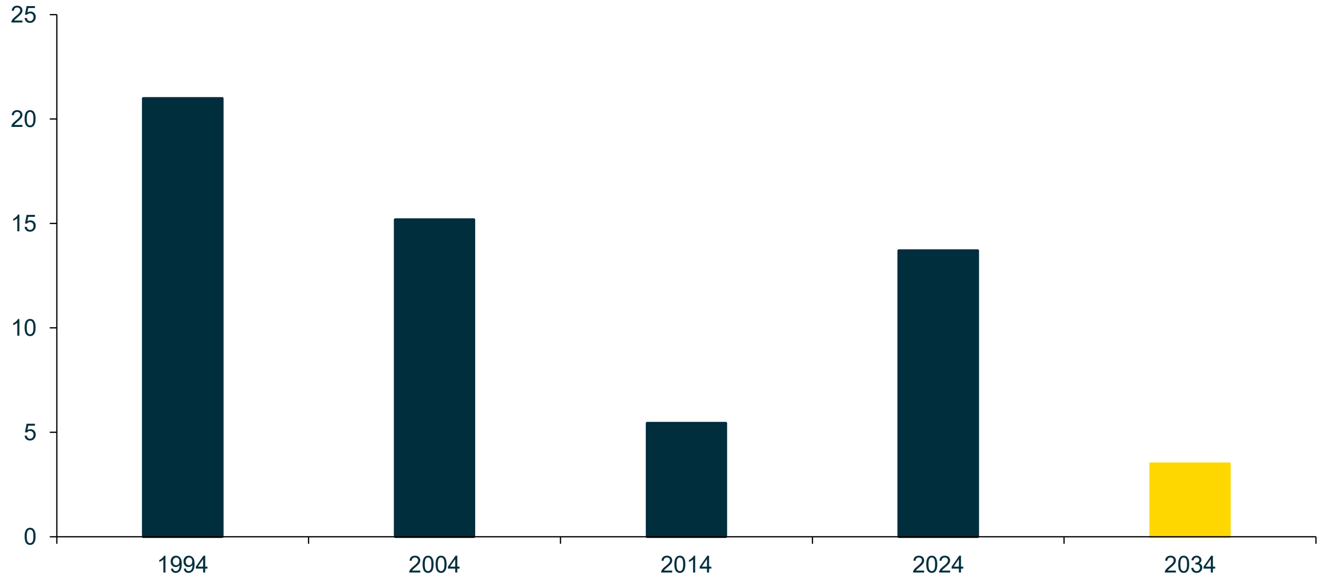
If immigration slows to a crawl, the development of the working population in the coming years will be determined primarily by the population structure and aging. In the coming twelve months, 50-60 thousand new jobs per month should therefore be sufficient to prevent an increase in the unemployment rate.

Long-term "speed limit" on the labor market will be quite low

Even in the long term, employment growth is likely to remain relatively weak by historical standards. At least, that is what the recently updated BLS projection for the working population and employment suggests. For the ten years after 2024, statisticians expect employment to grow by only 3% in total. In contrast, employment rose by over 12% in the ten years up to 2024 (Chart 4). Although this projection is based on employment figures obtained from household surveys, the increase in payrolls is unlikely to deviate significantly from this in a long-term comparison. This means that, on average, only a monthly increase in employment of around 40,000 is to be expected over the next ten years. Taken on its own, this historically low growth in jobs would not be a reason to ease monetary policy.

Chart 4 - Payroll growth set to slow

Nonfarm payrolls, ten-year change in %. For 2034: Commerzbank projection based on BLS employment projections



Source: BLS, Commerzbank Research

[1] The employment figures ("nonfarm payrolls") are collected through a monthly survey of a sample of companies and government agencies. Once a year, the figures obtained in this way are checked against a complete data set, which is based primarily on employers' mandatory reports to the unemployment insurance system, and revised if necessary. The current revision concerns data from April 2024 to March 2025. This data will not be incorporated into the data until the employment report for January 2026. In addition, as in previous years, it is to be expected that the final revision will be slightly less unfavorable than the preliminary revision now published. (back to text)

[2] From February to July, the border patrol reported only 25,000 to 30,000 "encounters" of illegal immigrants per month. Last year, the figure was around 10 times higher. (back to text)

[3] Unlike the employment figures obtained from the business survey, the unemployment rate is not revised. This is based on a different survey of private households – and there is no annually updated complete data set that could serve as a basis for a benchmark revision; a census is only conducted every ten years. (back to text)

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This report was completed 15/9/2025 13:51 CEST and disseminated 15/9/2025 13:51 CEST.

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