CIBC

CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

July 3, 2025

US Non-farm payrolls: Nothing to write home about

by **Ali Jaffery** ali.jaffery@cibc.com

Employment change (thousands, unless otherwise noted)	Jun 25	May 25	Apr 25	Mar 25	Feb 25
Unemployment rate (%)	4.1	4.2	4.2	4.2	4.1
Avg. hrly earn all (Monthly % Chg)	0.2%	0.4%	0.2%	0.3%	0.2%
Avg. wkly hour all (Monthly % Chg)	-0.1%	0.4%	0.2%	0.6%	0.5%
Nonfarm employment	147	144	158	120	102
Total private	74	137	133	114	107
Goods-producing	6	-4	2	5	24
Construction	15	6	0	5	12
Manufacturing	-7	-7	0	1	8
Priv. Serv providing	68	141	131	109	83
Wholesale trade	-6.6	3.7	1.3	-4.8	7
Retail trade	2.4	-7.1	4.7	16.4	-4
Transp. & Warehousing	7.5	4.5	-7.6	-20.7	18
Information	3	5	1	-2	0
Financial	3	10	5	3	15
Business services	-7	0	27	-11	15
Temporary help	-2.6	-5.7	16.9	-14.3	-2
Education, health	51	83	85	65	65
Leisure, hospitality	20	29	18	45	-34
Government	73	7	25	6	-5
Federal Government	-7	-25	-13	-11	-13

Source: Haver Analytics

- The headline job numbers looked solid in June but underneath the hood, the story was not as great. Payrolls came in at a 147K pace in June, above pessimistic expectations of 106K and the prior two months were revised up by +16K, resulting in the three-month average job gain tally now at 150K, up from the 135K thought at the time of the May release. Federal government job losses and weak manufacturing employment continued, but today’s report was flattered by strong state and local government hiring, especially in state educational services that does not look durable. Private sector hiring was pretty soft and wage growth edged down a notch below expectations to 0.2% m/m. But that being said, the unemployment rate ticked down by two notches to 4.1%, whereas consensus expected a rise to 4.3%. Some of that is due to lower participation but overall, the labor market is still in decent shape and not far from full employment. That still gives the Fed the luxury to wait-and-see what happens with inflation. We continue to expect they will ease policy in December of this year.

- Government hiring and healthcare/social assistance were the main forces driving job growth in the payroll survey. Together, they accounted for close to 90% of job gains in June. State government hiring in educational services (+40K) surged in June in seasonally adjusted terms, but it declined as one would expect on a non-seasonally adjusted basis. It's very hard to decipher what exactly is happening there, but the trend has been gradually higher summer employment in state educational services, perhaps reflecting the large past increase in population, available state funding and the need for catch-up after hiring in this category was depressed for the three pandemic years.
- But beyond that potentially idiosyncratic force, private sector hiring looked fairly depressed with the weakest private service employment (+68K) report since October of last year. Amongst cyclical sectors, only leisure and hospitality showed meaningful employment gains in the month. The trend in private employment is clearly down, being weighed down by fading population growth and trade tensions. Average hours worked ticked down too, and when you put together all the ingredients, wage income was essentially flat in the economy in June. That portends further soft consumption growth ahead.
- The household survey was mixed, with the jobless rate declining in part because young (16-24) and older workers (55+) are exiting the labor force, but also due to a modest rise in employment (+93K). Prime-age participation remains stellar (+83.5%) and adult population growth is still holding up in the survey, although it doesn't have a great track record. But one can't conclude from looking at the household survey that the job market health is at major risk. Population ageing should imply a further decline in participation, and the jobless rate is still telling us that despite supply and demand both moving down, they are doing so together keeping the labor market still roughly in balance.
- The Fed will take this as more sign of a controlled structural slowdown in the economy, implying limited feedback to inflation from the job market. The job market could start to look worse between now and September, but inflation could should also rise, and we expect Powell to channel his inner Volker and resist easing until he is confident that tariff pass-through means a temporary blip to prices, and the knock-on impacts to inflation expectations and service prices are modest. That we expect will materialize close to the end of the year.

Implications & actions

Re: Economic forecast — Today's data are telling us the job market is in decent health but the labor market clearly slowing and today's report was flattered by state and local government hiring that could fade in the coming months. It's nothing to write home about. Wage income growth in June was weaker implying modestly weaker consumption growth ahead. Our Q2 tracking is at 2.2%.

Re: Markets — The market was clearly worried about a bad job report today as yields and the dollar rose in reaction to the solid headline job numbers.