

Economics

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US Non-farm payrolls: A mash-up of forces showing up today

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Employment change (thousands, unless otherwise noted)	May 25	Apr 25	Mar 25	Feb 25	Jan 25
Unemployment rate (%)	4.2	4.2	4.2	4.1	4.0
Avg. hrly earn all (Monthly % Chg)	0.4%	0.2%	0.3%	0.2%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.4%	0.2%	0.6%	0.5%	0.1%
Nonfarm employment	139	147	120	102	111
Total private	140	146	114	107	79
Goods-producing	-5	14	5	24	-11
Construction	4	7	5	12	-3
Manufacturing	-8	5	1	8	-5
Priv. Serv providing	145	132	109	83	90
Wholesale trade	2.5	3.6	-4.8	7.1	-4
Retail trade	-6.5	-2.7	16.4	-3.8	36
Transp. & Warehousing	5.8	-8.1	-20.7	18.3	21
Information	2	0	-2	0	-4
Financial	13	3	3	15	14
Business services	-18	10	-11	15	-35
Temporary help	-20.2	3.1	-14.3	-2.2	-8
Education, health	87	100	65	65	62
Leisure, hospitality	48	29	45	-34	-14
Government	-1	1	6	-5	32
Federal Government	-22	-13	-11	-13	3

Source: Haver Analytics

- A spring chill came over the job market, with significant downward revisions to prior months. Payrolls came in at a 139K pace in May, not far from expectations of 126K or the prior month reading of 147K. But there were also net negative revisions of 95K over the previous two months and the three-month average job gain tally now sits at 135K, down from the 155K we thought last month. Manufacturing employment decreased by 8K in the month, more signs that trade policy is having some effect, and federal government job losses continued. Wage growth accelerated by 0.4% m/m, a notch above consensus. The household survey showed a mixed picture, with weaker participation but solid employment gains. The unemployment rate stayed at 4.2% and the participation rate ticked down two notches to 62.4%.
- A mash-up of forces are showing up today, not just tariffs and trade uncertainty. Immigration policy is also having an impact on today's numbers with population growth slowing and weighing down the number of new job seekers, as is the shadow of strong hiring in 2024. The Fed has time on its hands to assess the net effects of the administration's

policies, including the inflation response to tariffs, and we expect they will stay on the sidelines until the fourth quarter. We are expecting one cut in December of this year, whereas the market is closer to two cuts at this point.

- Underneath the hood, the softness in today's report came mainly from the goods sector where there net job losses of 5K, driven by machinery manufacturing. The service sector as a whole looked solid, with job gains of 145K, but was anchored as usual by healthcare hiring (+78K). Leisure and hospitality was also strong in the month (+48K) as was finance (+13K). Trade-sensitive service sectors such as transportation and warehousing (+5.8K) and wholesale trade (+2.5K). But zooming out, the trend in service employment has actually improved since the start of the year from an average of 94K in Q1 to the close to 139K over April and May. And this follows from a surge in service hiring in Q4 2024 (+183K), suggesting that some of the softness in hiring is reflective of firms having already staffed up a lot earlier.
- Looking forward, we expect the job market to suffer from trade tensions, but it certainly won't break. The US economy is not trade-intensive and the spillovers from manufacturing back into the rest of the economy have also gotten weaker, so we don't expect a disorderly slowdown in the labor market, as we have seen in other shocks. The big question however, is where trade policy ultimately settles. The latest court challenge might throw a major wrench into the administration's plans, limiting their ability to implement broad-based tariffs and that might force them either to legislate tariffs or to create a patch-work of tariffs that target sectors and/or a more narrow list of countries. The job market impact from that alternative regime is hard to assess, but the being stuck in the purgatory of not knowing will weigh on hiring intentions.

Implications & actions

Re: Economic forecast — Today's data show a job market that is cooling off, for a variety of reasons including trade tensions. We expect growth to rebound in Q2 to 2.9% as imports contract and inventories are drawn down.

Re: Markets — Bond yields rose, as did the dollar, but that was likely due to hawkish comments from Cleveland Fed President Hammock this morning.

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